NOT A NEW ISSUE RATINGS: See "Ratings" herein

SECONDARY MARKET INFORMATION CIRCULAR

relating to

$64,690,000
City of Austin, Texas
Hotel Occupancy Tax Subordinate Lien
Variable Rate Revenue Refunding Bonds
Series 2008

consisting of

Subseries	**CUSIP**	**Letter of Credit Bank**
$32,345,000 Subseries A	**052422___**	**UBS AG, acting through its Stamford Branch**
$32,345,000 Subseries B	**052422DQ2**	**Sumitomo Mitsui Banking Corporation, acting through its New York Branch**

This Secondary Market Information Circular ("Information Circular") has been prepared for use by the Remarketing Agents with respect to the above-referenced bonds (the "Series 2008 Bonds") and supplements the final Official Statement dated August 7, 2008 (the "2008 Official Statement") relating to the Series 2008 Bonds, which were issued on August 14, 2008. The Series 2008 Bonds were issued in two subseries, consisting of Subseries A (the "Subseries 2008A Bonds") and Subseries B (the "Subseries 2008B Bonds"). **THIS INFORMATION CIRCULAR SUPERSEDES THE SECONDARY MARKET INFORMATION CIRCULAR DATED OCTOBER 4, 2017 AND THE SUPPLEMENT TO THE SECONDARY MARKET INFORMATION CIRCULAR DATED SEPTEMBER 15, 2020, PREPARED IN CONNECTION WITH THE SERIES 2008 BONDS.** All terms not otherwise defined herein have the meanings given such terms in the 2008 Official Statement.

The City of Austin, Texas (the "City") intends to substitute one letter of credit, constituting both a Credit Facility and a Liquidity Facility, for the existing letter of credit supporting the Subseries 2008A Bonds, as further described below. Such substitution will take place on October 5, 2021 (the "Tender Date"). The Subseries 2008A Bonds will be subject to mandatory tender for purchase on the Tender Date.

With respect to the Subseries 2008A Bonds, this Information Circular describes the Reimbursement Agreement dated as of October 1, 2021 (the "Subseries A Reimbursement Agreement"), between the City and UBS AG, acting through its Stamford Branch ("UBS"), that will be executed and delivered on or before the Tender Date. UBS will issue a letter of credit relating solely to the Subseries 2008A Bonds (the "Subseries A Letter of Credit"), that will be delivered on the Tender Date. With respect to the Subseries 2008B Bonds, this Information Circular describes the Reimbursement Agreement dated as of October 1, 2017 (the "Subseries B Reimbursement Agreement"), between the City and Sumitomo Mitsui Banking Corporation, acting through its New York Branch ("SMBC"), that was amended and delivered as of September 15, 2020. SMBC issued a letter of credit relating solely to the Subseries 2008B Bonds (the "Subseries B Letter of Credit").

The Subseries A Reimbursement Agreement and the Subseries B Reimbursement Agreement are individually referred to herein as a "Reimbursement Agreement" and are collectively referred to herein as the "Reimbursement Agreements." The Subseries A Letter of Credit and the Subseries B Letter of Credit are individually referred to herein as a "Letter of Credit" and are collectively referred to herein as the "Letters of Credit." UBS and SMBC are collectively referred to herein as the "Banks." Each Letter of Credit was or will be issued in an original stated amount equal to the outstanding principal amount of the respective subseries of the Series 2008 Bonds for which it is issued, plus interest accrued thereon for forty-eight (48) calendar days, calculated at a rate of ten percent (10%) per annum, based on a year of 365 days. The Subseries B Letter of Credit was extended on September 15, 2020 and is scheduled to terminate on October 7, 2022, unless extended or terminated earlier in accordance with the terms of the Subseries B Reimbursement Agreement and the Subseries B Letter of Credit. The Subseries A Letter of Credit is scheduled to terminate on October 2, 2024, unless extended or terminated earlier in accordance with the terms of the Subseries A Reimbursement Agreement and the Subseries A Letter of Credit. See "**REIMBURSEMENT AGREEMENTS**" herein.

Payment of the scheduled principal of and interest on the Series 2008 Bonds, together with the purchase price of Series 2008 Bonds subject to optional or mandatory tender for purchase which have not been remarketed, will be payable from amounts received under the Subseries A Letter of Credit, solely with respect to the Subseries 2008A Bonds, and from amounts received under the Subseries B Letter of Credit, solely with respect to the Subseries 2008B Bonds. Series 2008 Bonds tendered for purchase will be paid first, from the proceeds of the remarketing thereof, if any, and second, from a liquidity drawing on the related Letter of Credit. The Banks are liable solely with respect to the scheduled principal and interest and purchase price of the related subseries of the Series 2008 Bonds for which it is obligated and not for any other Series 2008 Bond. The City has no obligation to purchase tendered Series 2008 Bonds. See "**REIMBURSEMENT AGREEMENTS**" herein.

This cover page contains certain information for general reference only. It is not intended to be a summary of this transaction. Investors are advised to read the entire Information Circular (including without limitation the information described herein under "**THE CITY; DOCUMENTS INCORPORATED BY REFERENCE**") in conjunction with the 2008 Official Statement to obtain information essential to making an informed investment decision with respect to the Series 2008 Bonds.

Raymond James,
as Remarketing Agent for the Subseries 2008A Bonds

BofA Securities, Inc.,
as Remarketing Agent for the Subseries 2008B Bonds

The date of this Information Circular is September 28, 2021.

The summary information set forth below applies to the Series 2008 Bonds only during the Weekly Mode. Such interest rate mode and related information are subject to change. This information is qualified by reference to the 2008 Official Statement, and investors should review such portions of the 2008 Official Statement attached as APPENDIX B to this Information Circular in their entirety before making any investment decisions with respect to the Series 2008 Bonds.

REGARDING USE OF THIS INFORMATION CIRCULAR

This Information Circular has been prepared with respect to the Series 2008 Bonds only. This Information Circular supersedes the Secondary Market Information Circular dated October 4, 2017, and the Supplement to the Secondary Market Information Circular dated September 15, 2020, each prepared in connection with the Series 2008 Bonds.

This Information Circular does not constitute a reoffering or a solicitation of a reoffering of the Series 2008 Bonds, nor shall there be any such reoffering, in any jurisdiction to any person to whom it is unlawful to do so. No dealer, salesman or any other person has been authorized to give any information other than that contained in this Information Circular or to make any representations and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the Remarketing Agents, the Banks, or any other person.

U.S. Bank National Association, in each of its capacities as Paying Agent/Registrar and Tender Agent, has not participated in the preparation of this Information Circular and assumes no responsibility for its content.

The information contained in Appendix A to this Information Circular pertaining to the Banks has been provided by each of the Banks. Each Remarketing Agent has reviewed the information in this Information Circular in accordance with, and as part of, its respective responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Information Circular nor any remarketing of the Series 2008 Bonds by a Remarketing Agent shall, under any circumstances, create an implication that there has been no change in the affairs of the City, the Banks, or any other person or in the other matters described herein.

UBS has no responsibility for the form and content of this Information Circular, other than solely with respect to the information describing itself in APPENDIX A hereto under the heading "**UBS**" and has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Information Circular or any information or disclosure contained herein or omitted herefrom, other than solely with respect to the information describing itself in APPENDIX A hereto under the heading "**UBS**."

SMBC has no responsibility for the form and content of this Information Circular, other than solely with respect to the information describing itself in APPENDIX A hereto under the heading "**SUMITOMO MITSUI BANKING CORPORATION**," and has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Information Circular or any information or disclosure contained herein or omitted herefrom, other than solely with respect to the information describing itself in APPENDIX A hereto under the heading "**SUMITOMO MITSUI BANKING CORPORATION**."

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Subseries	CUSIP	Letter of Credit Bank
$32,345,000 Subseries A	**052422___**	**UBS AG, acting through its Stamford Branch**
$32,345,000 Subseries B	**052422DQ2**	**Sumitomo Mitsui Banking Corporation, acting through its New York Branch**

Capitalized terms not otherwise defined herein shall have the meanings set forth in the 2008 Official Statement (as defined below), portions of which are attached to this Information Circular as APPENDIX B. Investors are advised to read this Information Circular in conjunction with such portions of the 2008 Official Statement to obtain information essential to making an informed investment decision with respect to the Series 2008 Bonds.

PURPOSE OF THIS INFORMATION CIRCULAR

This Information Circular has been prepared for use by the Remarketing Agents with respect to the above-referenced bonds (the "Series 2008 Bonds") and supplements the Official Statement dated August 7, 2008 (the "2008 Official Statement") relating to the Series 2008 Bonds, which were issued on August 14, 2008. The Series 2008 Bonds were issued in two subseries, consisting of Subseries A (the "Subseries 2008A Bonds") and Subseries B (the "Subseries 2008B Bonds").

The Series 2008 Bonds were issued by the City of Austin, Texas (the "City" or the "Issuer") pursuant to an ordinance of the City adopted July 24, 2008, as amended by an ordinance adopted by the City on June 23, 2011, an ordinance adopted by the City on November 21, 2013, an ordinance adopted by the City on August 27, 2020, and an ordinance adopted by the City on August 26, 2021 (as amended, the "Ordinance").

The City intends to substitute one letter of credit, constituting both a Credit Facility and a Liquidity Facility, for the existing letter of credit supporting the Subseries 2008A Bonds, as further described below. Such substitution will take place on October 5, 2021 (the "Tender Date"). The Subseries 2008A Bonds will be subject to mandatory tender for purchase on the Tender Date.

With respect to the Subseries 2008A Bonds, this Information Circular describes the Reimbursement Agreement dated as of October 1, 2021 (the "Subseries A Reimbursement Agreement"), between the City and UBS AG, acting through its Stamford Branch ("UBS"), that will be executed and delivered on or before the Tender Date. UBS will issue a letter of credit relating solely to the Subseries 2008A Bonds (the "Subseries A Letter of Credit"), that will be delivered on the Tender Date. With respect to the Subseries 2008B Bonds, this Information Circular describes the Reimbursement Agreement dated as of October 1, 2017 (the "Subseries B Reimbursement Agreement"), between the City and Sumitomo Mitsui Banking Corporation, acting through its New York Branch ("SMBC"), that was amended as of September 15, 2020. SMBC issued a letter of credit relating solely to the Subseries 2008B Bonds (the "Subseries B Letter of Credit").

The Subseries A Reimbursement Agreement and the Subseries B Reimbursement Agreement are individually referred to herein as a "Reimbursement Agreement" and are collectively referred to herein as the "Reimbursement Agreements." The Subseries A Letter of Credit and the Subseries B Letter of Credit are individually referred to herein as a "Letter of Credit" and are collectively referred to herein as the "Letters of Credit." UBS and SMBC are collectively referred to herein as the "Banks." Each Letter of Credit was or will be issued in an original stated amount equal to the outstanding principal amount of the respective subseries of the Series 2008 Bonds for which it is issued, plus interest accrued thereon for forty-eight (48) calendar days, calculated at a rate of ten percent (10%) per annum, based on a year of 365 days. The

Subseries B Letter of Credit is scheduled to terminate on October 7, 2022, unless extended or terminated earlier in accordance with the terms of the Reimbursement Agreement and Letter of Credit. The Subseries A Letter of Credit is scheduled to terminate on October 2, 2024, unless extended or terminated earlier in accordance with the terms of the Reimbursement Agreement and Letter of Credit. See "**REIMBURSEMENT AGREEMENTS**" herein.

Payment of the scheduled principal of and interest on the Series 2008 Bonds, together with the purchase price of Series 2008 Bonds subject to optional or mandatory tender for purchase which have not been remarketed, will be payable from amounts received under the Subseries A Letter of Credit, solely with respect to the Subseries 2008A Bonds, and from amounts received under the Subseries B Letter of Credit, solely with respect to the Subseries 2008B Bonds. Series 2008 Bonds tendered for purchase will be paid first, from the proceeds of the remarketing thereof, if any, and second, from a liquidity drawing on the respective Letter of Credit. The Banks are liable solely with respect to the scheduled principal and interest and purchase price of the related subseries of the Series 2008 Bonds for which it is obligated and not for any other Series 2008 Bond. The City has no obligation to purchase tendered Series 2008 Bonds. See "**REIMBURSEMENT AGREEMENTS**" herein.

U.S. Bank National Association currently serves as the Paying Agent/Registrar and as the Tender Agent for the Series 2008 Bonds. Raymond James & Associates, Inc. currently serves as the Remarketing Agent for the Subseries 2008A Bonds, and BofA Securities, Inc. currently serves as the Remarketing Agent for the Subseries 2008B Bonds.

REIMBURSEMENT AGREEMENTS

The Subseries A Letter of Credit, to be issued by UBS on October 5, 2021, under the terms of the Subseries A Reimbursement Agreement, provides credit and liquidity support only for the Subseries 2008A Bonds. The Subseries B Letter of Credit, issued by SMBC on October 12, 2017, under the terms of the Subseries B Reimbursement Agreement provides credit and liquidity support only for the Subseries 2008B Bonds. The following summary of the Reimbursement Agreements and the Letters of Credit does not purport to be comprehensive or definitive and is subject in all respects to all of the respective terms and provisions thereof, to which reference is made hereby. Investors are urged to obtain and review a copy of the Reimbursement Agreements and the Letters of Credit in order to understand all of the terms of those documents.

See "APPENDIX A - INFORMATION REGARDING THE BANKS" for certain information regarding UBS and SMBC. Capitalized terms used in this section of the Information Circular have the meanings given to said terms in the Reimbursement Agreements.

General

Upon compliance with the terms and conditions of the related Letter of Credit, and subject to the terms and conditions set forth therein, the related Bank is obligated to provide funds for the related subseries of the Series 2008 Bonds that are tendered for purchase and not remarketed, whether at the option of the owner of such subseries of the Series 2008 Bonds or upon mandatory tender for purchase.

Each Letter of Credit automatically shall expire on its termination date. As used herein, each termination date shall mean 5:00 p.m., New York City time on the earliest of: (a) October 7, 2022 for the Subseries B Letter of Credit (as extended from time to time), and October 2, 2024 for the Subseries A Letter of Credit (as extended from time to time); (b) the date which is one (1) Business Day following the date on which the related Bank receives an appropriately completed certificate from the Paying Agent/Registrar to the effect that (i) no Series 2008 Bonds of the related subseries remain Outstanding within the meaning of the Ordinance or (ii) all Drawings required to be made under the Ordinance and available under the related Letter of Credit have been made and honored; (c) the earlier of the date (i) which is one (1) Business Day following the date on which all of the Series 2008 Bonds of the related subseries have been converted to a rate other than the Weekly Rate, as such date is specified in a certificate from the Paying Agent/Registrar (the "Conversion Date") or (ii) on which the related Bank has honored a Drawing (as defined in the related Letter of Credit) made in accordance with the terms of the related Letter of Credit in connection with the conversion of the interest rate on the related subseries of the Series 2008 Bonds to a rate other than the Weekly Rate; (d) the date on which an Alternate Credit Facility or Alternate Liquidity Facility (as defined in the Ordinance) has been issued to replace the related Letter of Credit pursuant to the Ordinance and (i) all Series 2008 Bonds of the related subseries have been remarketed and (ii) the related Bank has honored a Drawing made in accordance with the terms of the related Letter of Credit in connection with such replacement, if applicable; (e) the date on which a Stated Maturity Drawing is honored by the related Bank; and (f) the first to occur of (i) the date which is fifteen (15) calendar days after the date on which the Paying Agent/Registrar has received a written notice from the related Bank (the "Termination Event of Default Notice") that an Event of Default has occurred and is continuing under the related Reimbursement Agreement or (ii) the date, following receipt of such Termination Event of Default Notice, upon which the Paying Agent/Registrar has drawn upon the related Letter of Credit the amount required thereby and as permitted under the related Letter of Credit and the proceeds of the Drawing have been distributed to the Paying Agent/Registrar.

The Paying Agent/Registrar is authorized to make drawings on the related Letter of Credit for the scheduled payment of principal of and interest on the related subseries of the Series 2008 Bonds (an "Interest Drawing", a "Redemption Drawing" and a "Stated Maturity Drawing", as the case may be), subject to certain conditions set forth in the related Letter of Credit. The Paying Agent/Registrar is also authorized to make a drawing on the related Letter of Credit for the payment of the purchase price of the related subseries of the Series 2008 Bonds bearing interest at the Weekly Rate that have been tendered or deemed to have been tendered, as applicable, and not remarketed (a "Liquidity Drawing"), subject to certain conditions set forth in the related Letter of Credit. As provided in and subject to the satisfaction of certain conditions set forth in the related Reimbursement Agreement, a Liquidity Drawing shall constitute a Liquidity Advance, and shall immediately, subject to the satisfaction of certain conditions set forth in the related Reimbursement Agreement, on a Term Loan Commencement Date, convert into a Term Loan. No Drawing shall be made under any Letter of Credit for the payment of principal or interest on Ineligible Bonds.

Series 2008 Bonds of a subseries purchased with the proceeds of a Liquidity Drawing are Liquidity Provider Bonds, and the Paying Agent/Registrar shall deliver to the related Bank and register such Liquidity Provider Bonds as provided in the related Reimbursement Agreement. Liquidity Provider Bonds shall bear a CUSIP Number which will be unique to Liquidity Provider Bonds, and which will be different from the CUSIP Number for Series 2008 Bonds that are not Liquidity Provider Bonds. The payment of principal of and interest on Liquidity Provider Bonds shall be made in the manner set forth in the related Reimbursement Agreement.

Events of Default and Remedies under the Subseries A Reimbursement Agreement

As used in this "**Events of Default and Remedies under the Subseries A Reimbursement Agreement**" caption, the term "Reimbursement Agreement" shall refer to the Subseries A Reimbursement Agreement, the term "Letter of Credit" shall refer to the Subseries A Letter of Credit, the term "Bank" shall refer to UBS, and the term "Bonds" shall refer to the Subseries 2008A Bonds, as each such term is more particularly defined in the Subseries A Reimbursement Agreement.

Any one or more of the following events shall constitute an "Event of Default" under the Reimbursement Agreement:

(a) any representation or warranty made by the City in any of the Ordinance, the Reimbursement Agreement or any other Related Document to which it is a party, or in any certificate, agreement, instrument or statement contemplated by or made or delivered pursuant to or in connection herewith or therewith shall prove to have been false, inaccurate, incomplete or misleading in any material adverse respect either on the date hereof or on the date when made or deemed to have been made or delivered;

(b) (i) any "event of default" under the Ordinance or any other Related Document (other than the Reimbursement Agreement) shall occur and be continuing; or (ii) (A) the City shall fail to make any payment in respect of principal or interest on any Parity Obligation when due (*i.e.,* whether upon the scheduled maturity, required prepayment, acceleration, upon demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Parity Obligation; or (B) default in the observance or performance of any agreement or condition relating to any Parity Obligation or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, in each case, the effect of which default or other event or condition is to permit (after any applicable grace period) the holder or holders of such Parity Obligation (or a trustee or agent on behalf of such holder or holders) to cause (in each case, determined without regard to whether any notice is required) or cause, any such Parity Obligation to become due prior to its stated maturity;

(c) the City shall fail to pay or cause to be paid when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise in accordance with its terms) (i) any amounts with respect to the principal of, interest on or premium, if any, on any Bonds (including Liquidity Provider Bonds), (ii) any amounts payable under Article Two hereof (other than amounts described in clause (i) of this paragraph (c)), or (iii) any other amount payable pursuant to the Reimbursement Agreement, the Fee Agreement or the Bonds (including Liquidity Provider Bonds) (other than amounts described in clauses (i) and (ii) of this paragraph (c));

(d) default in the due observance or performance of certain specified covenants set forth in the Reimbursement Agreement;

(e) default in the due observance or performance of any other term, covenant or agreement set forth in the Reimbursement Agreement and not listed in Section 7.1(d) of the Reimbursement Agreement and such default has not been remedied within thirty (30) days after the earlier of (x) the date of written notice thereof from the Bank or (y) the date on which such default shall first become known to any officer of the City;

(f) the City makes an assignment for the benefit of creditors, files a petition in bankruptcy, becomes insolvent, as defined in Section 101(32) of the United States Bankruptcy Code, or is unable generally to pay its debts as they come due, is adjudicated insolvent or bankrupt or there is entered any order or decree granting relief in any involuntary case commenced against the City under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or if the City petitions or applies to any tribunal for or otherwise seeks, consents to, or acquiesces in the appointment of any receiver, examiner, trustee, liquidator, assignee, custodian, sequestrator or other similar official for the City or of any substantial part of its Properties, or commences any proceeding in a court of law seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, or for winding up, arrangement, marshalling of assets, reorganization, adjustment or composition of debt, dissolution, liquidation or other similar procedure under the law or statutes of any jurisdiction, whether now or hereafter in effect, or if there is commenced against the City any such proceeding in a court of law which remains undismissed or shall not be discharged, vacated or stayed, or such jurisdiction shall not be relinquished, within sixty (60) days after commencement, or the City by any act, indicates its consent to, approval of, or acquiescence in any such proceeding in a court of law or fails to file an answer or other pleading denying the material allegations of any such proceeding filed against it in the time allotted for such answer, or to an order for relief in an involuntary case commenced against the City under any such law, or to the appointment of any receiver, examiner, trustee, liquidator, assignee, custodian, sequestrator or other similar official for the City or a substantial part of its Properties, or if the City suffers any such receivership, examination, trusteeship, liquidation, assignment, custodianship, sequestration or other similar procedure to continue undischarged for a period of sixty (60) days after commencement or if the City takes any action for the purposes of effecting the foregoing;

(g) any material provision of any of the Related Documents shall cease to be valid and binding for any reason, or the City or any Governmental Authority shall contest any such provision or the City, or any agent or trustee on behalf of the City, shall deny that it has any or further liability under any of the Related Documents or with respect to its obligations to pay any Parity Obligation;

(h) default shall occur in the payment when due of any Indebtedness of the City payable from and/or secured by all or any part of the Pledged Revenues not otherwise described in this Section 7.1 which exceeds in the aggregate $10,000,000 issued, assumed or guaranteed by the City and shall continue beyond any applicable period of grace, or default shall occur under any indenture, agreement or other instrument under which the same may be issued, and such default shall continue for a period of time sufficient to permit (after any applicable grace period) the holder or holders of such Indebtedness payable from and/or secured by all or any part of the Pledged Revenues (or a trustee or agent on behalf of such holder or holders) to cause (in each case, determined without regard to whether any notice is required) or cause, any such Indebtedness payable from and/or secured by all or any part of the Pledged Revenues to become due prior to its stated maturity;

(i) judgment for the payment of money in excess of an aggregate of $10,000,000 (or its equivalent in another currency or currencies) that is payable from Pledged Revenues and not fully covered by insurance shall be rendered against the City and the same shall remain unvacated, unbonded, unstayed or undischarged for a period of thirty (30) consecutive days during which execution shall not be effectively stayed or for the payment of which a surety bond or other adequate security has not been obtained in the judgment of the Bank;

(j) all or any part of the Security shall not be subject to a security interest for the benefit of the Owners and the Bank;

(k) (i) the City shall impose, declare or announce a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on any Indebtedness of the City payable from and/or secured by all or any part of the Pledged Revenues or (ii) any Governmental Authority having appropriate jurisdiction over the City shall make a finding or ruling or shall enact or adopt legislation or issue an executive order or enter a judgment or decree which results in a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on the Obligations, any Bonds or on any Indebtedness of the City payable from and/or secured by all or any part of the Pledged Revenues; or

(l) any long-term, unenhanced debt rating assigned to the Parity Bonds shall be withdrawn, suspended or lowered below "BBB+" (or its equivalent) by Fitch or S&P or "Baa1" (or its equivalent) by Moody's.

Upon the occurrence and during the continuance of any Event of Default under the Reimbursement Agreement, all Obligations shall bear interest at the Default Rate and the Bank, shall, with notice thereof to the Paying Agent/Registrar, exercise any one or more of the following rights and remedies, in addition to any other remedies herein or by law provided:

(a) by notice to the City, declare all Obligations to be, and such amounts shall thereupon become, immediately and automatically due and payable without further presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City, *provided* that upon the occurrence of an Event of Default under Section 7.1(f) of the Reimbursement Agreement such acceleration shall automatically occur (unless such automatic acceleration is waived by the Bank in writing);

(b) give written notice of the occurrence of an Event of Default to the Paying Agent/Registrar, directing the Paying Agent/Registrar to cause a mandatory tender of the Bonds, thereby causing the Letter of Credit to expire fifteen (15) days thereafter;

(c) direct the Paying Agent/Registrar to exercise its rights under the Ordinance and the Related Documents; and

(d) pursue any other action available at law or in equity;

Events of Default and Remedies under the Subseries B Reimbursement Agreement

As used in this "**Events of Default and Remedies under the Subseries B Reimbursement Agreement**" caption, the term "Reimbursement Agreement" shall refer to the Subseries B Reimbursement Agreement, the term "Letter of Credit" shall refer to the Subseries B Letter of Credit, the term "Bank" shall refer to SMBC, and the term "Bonds" shall refer to the Subseries 2008B Bonds, as each such term is more particularly defined in the Subseries B Reimbursement Agreement.

Any one or more of the following events shall constitute an "Event of Default" under the Reimbursement Agreement:

(a) any representation or warranty made by the City in any of the Ordinance, the Reimbursement Agreement or any other Related Document to which it is a party, or in any certificate, agreement, instrument or statement contemplated by or made or delivered pursuant to or in connection with the Reimbursement Agreement or therewith shall prove to have been false, inaccurate, incomplete or misleading in any material adverse respect either on the date thereof or on the date when made or deemed to have been made or delivered;

(b) (i) any "event of default" under the Ordinance or any other Related Document (other than the Reimbursement Agreement) shall occur and be continuing; or (ii) (A) the City shall fail to make any payment in respect of principal or interest on any Parity Obligation when due (*i.e.,* whether upon the scheduled maturity, required prepayment, acceleration, upon demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Parity Obligation; or (B) default in the observance or performance of any agreement or condition relating to any Parity Obligation or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, in each case, the effect of which default or other event or condition is to permit (after any applicable grace period) the holder or holders of such Parity Obligation (or a trustee or agent on behalf of such holder or holders) to cause (in each case, determined without regard to whether any notice is required) or cause, any such Parity Obligation to become due prior to its stated maturity;

(c) the City shall fail to pay or cause to be paid when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise in accordance with its terms) (i) any amounts with respect to the principal of, interest on or premium, if any, on any Bonds (including Liquidity Provider Bonds), (ii) any amounts payable under Article Two of the Reimbursement Agreement (other than amounts described in clause (i) of this paragraph (c)), or (iii) any other amount payable pursuant to the Reimbursement Agreement, the Fee Agreement or the Bonds (including Liquidity Provider Bonds) (other than amounts described in clauses (i) and (ii) of this paragraph (c));

(d) default in the due observance or performance of any of the certain specified covenants set forth in the Reimbursement Agreement;

(e) (i) default in the due observance and performance of any covenant set forth in a certain specified covenant set forth in the Reimbursement Agreement and such default has not been remedied within three (3) days after the earlier of (x) the date of written notice thereof from the Bank or (y) the date on which such default shall first become known to any officer of the City, (ii) default in the due observance or performance of any covenant set forth in any of the certain specified covenants set forth in the Reimbursement Agreement and such default has not been remedied within fifteen (15) days after the earlier of (x) the date of written notice thereof from the Bank or (y) the date on which such default shall first become known to any officer of the City, or (iii) default in the due observance or performance of any other term, covenant or agreement set forth in the Reimbursement Agreement and such default has not been remedied within thirty (30) days after the earlier of (x) the date of written notice thereof from the Bank or (y) the date on which such default shall first become known to any officer of the City;

(f) the City makes an assignment for the benefit of creditors, files a petition in bankruptcy, becomes insolvent, as defined in Section 101(32) of the United States Bankruptcy Code, or is unable generally to pay its debts as they come due, is adjudicated insolvent or bankrupt or there is entered any order or decree granting relief in any involuntary case commenced against the City under any applicable bankruptcy, insolvency or other similar law now or in effect after the effective date of the Reimbursement Agreement, or if the City petitions or applies to any tribunal for or otherwise seeks, consents to, or acquiesces in the appointment of any receiver, examiner, trustee, liquidator, assignee, custodian, sequestrator or other similar official for the City or of any substantial part of its Properties, or commences any proceeding in a court of law seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, or for winding up, arrangement, marshalling of assets, reorganization, adjustment or composition of debt, dissolution, liquidation or other similar procedure under the law or statutes of any jurisdiction, whether now or after the effective date of the Reimbursement Agreement in effect, or if there is commenced against the City any such proceeding in a court of law which remains undismissed or shall not be discharged, vacated or stayed, or such jurisdiction shall not be relinquished, within sixty (60) days after commencement, or the City by any act, indicates its consent to, approval of, or acquiescence in any such proceeding in a court of law or fails to file an answer or other pleading denying the material allegations of any such proceeding filed against it in the time allotted for such answer, or to an order for relief in an involuntary case commenced against the City under any such law, or to the appointment of any receiver, examiner, trustee, liquidator, assignee, custodian, sequestrator or other similar official for the City or a substantial part of its Properties, or if the City suffers any such receivership, examination, trusteeship, liquidation, assignment, custodianship, sequestration or other similar procedure to continue undischarged for a period of sixty (60) days after commencement or if the City takes any action for the purposes of effecting the foregoing;

(g) any material provision of any of the Related Documents shall cease to be valid and binding for any reason, or the City or any Governmental Authority shall contest any such provision or the City, or any agent or trustee on behalf of the City, shall deny that it has any or further liability under any of the Related Documents or with respect to its obligations to pay any Parity Obligation;

(h) default shall occur in the payment when due of any Indebtedness of the City payable from and/or secured by all or any part of the Pledged Revenues not otherwise described in this "**Events of Default and Remedies under the Subseries B Reimbursement Agreement**" caption which exceeds in the aggregate $10,000,000 issued, assumed or guaranteed by the City and shall continue beyond any applicable period of grace, or default shall occur under any indenture, agreement or other instrument under which the same may be issued, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such Indebtedness payable from and/or secured by all or any part of the Pledged Revenues;

(i) judgment for the payment of money in excess of an aggregate of $10,000,000 (or its equivalent in another currency or currencies) that is payable from Pledged Revenues and not fully covered by insurance shall be rendered against the City and the same shall remain unvacated, unbonded, unstayed or undischarged for a period of thirty (30) consecutive days during which execution shall not be effectively stayed or for the payment of which a surety bond or other adequate security has not been obtained in the judgment of the Bank;

(j) all or any part of the Security shall not be subject to a security interest for the benefit of the Owners and the Bank;

(k) (i) the City shall impose, declare or announce a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on any Indebtedness of the City payable from and/or secured by all or any part of the Pledged Revenues or (ii) any Governmental Authority having appropriate jurisdiction over the City shall make a finding or ruling or shall enact or adopt legislation or issue an executive order or enter a judgment or decree which results in a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on the Obligations, any Bonds or on any Indebtedness of the City payable from and/or secured by all or any part of the Pledged Revenues; or

(l) any long-term, unenhanced debt rating assigned to the Parity Bonds shall be withdrawn, suspended or lowered below "BBB" (or its equivalent) by Fitch or S&P or "Baa2" (or its equivalent) by Moody's.

Upon the occurrence and during the continuance of any Event of Default under the Reimbursement Agreement, all Obligations shall bear interest at the Default Rate and the Bank, shall, with notice thereof to the Paying Agent/Registrar, exercise any one or more of the following rights and remedies, in addition to any other remedies in the Reimbursement Agreement or by law provided:

(a) by notice to the City, declare all Obligations to be, and such amounts shall thereupon become, immediately and automatically due and payable without further presentment, demand, protest or other notice of any kind, all of which are waived by the City in the Reimbursement Agreement, provided that upon the occurrence of an Event of Default under the Reimbursement Agreement such acceleration shall automatically occur (unless such automatic acceleration is waived by the Bank in writing);

(b) give written notice of the occurrence of an Event of Default to the Paying Agent/Registrar, directing the Paying Agent/Registrar to cause a mandatory tender of the Bonds, thereby causing the Letter of Credit to expire fifteen (15) days thereafter;

(c) direct the Paying Agent/Registrar to exercise its rights under the Ordinance and the Related Documents; and

(d) pursue any other action available at law or in equity;

provided, however, that the failure of the Bank to give notice of the exercise of any such right or remedy shall not affect the validity or enforceability thereof.

MATTERS RELATING TO PLEDGED REVENUES

As described under the caption "SECURITY FOR THE BONDS" in the 2008 Official Statement, the Series 2008 Bonds and any Additional Bonds thereafter issued are special obligations of the City that are, together with other Parity Obligations, equally and ratably secured by a lien on the Pledged Revenues, such lien being junior and subordinate to the lien securing the payment of the Prior Lien Bonds. The City has previously issued and there is currently outstanding $12,830,000 in aggregate principal amount of the City of Austin, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2012 (Convention Center/Waller Creek Venue Project) (the "Series 2012 Bonds"), which Series 2012 Bonds were issued as Additional Bonds and, accordingly, are secured by a lien on the Pledged Revenues on parity with the Series 2008 Bonds. The City has covenanted that it will not issue any additional bonds or other obligations payable from and secured by a lien on and pledge of the Pledged Revenues that is senior to the lien securing the Parity Obligations.

On December 5, 2013, the City issued its City of Austin, Texas 4.5% Hotel Occupancy Tax Revenue Refunding Bonds, Series 2013 (the "Series 2013 Bonds"), a portion of the proceeds of which were used to refund and defease all Prior Lien

Bonds that remained outstanding as of such date. As a result of the issuance of the Series 2013 Bonds, the prior lien on the Pledged Revenues securing the Prior Lien Bonds has been extinguished.

The Series 2013 Bonds are secured by a lien on and pledge of the revenues derived by the City from the 4.5% HOT, which lien and pledge is subordinate to the lien on and pledge of the revenues derived by the City from the 4.5% HOT securing the Series 2008 Bonds and the Series 2012 Bonds. The revenues derived by the City from the 2% HOT have not been pledged to the payment of the Series 2013 Bonds. The Series 2013 Bonds constitute Junior Subordinate Lien Bonds under the terms of the Ordinance authorizing the issuance of the Series 2008 Bonds and the ordinance authorizing the issuance of the Series 2012 Bonds.

In connection with the issuance of the Series 2013 Bonds, the Ordinance authorizing the issuance of the Series 2008 Bonds and the ordinance authorizing the issuance of the Series 2012 Bonds were amended to provide that the revenues derived by the City from the 2% HOT will be used first to pay the amounts owed on the Series 2008 Bonds and the Series 2012 Bonds, and should the revenues derived by the City from the 2% HOT be insufficient to fully pay the amounts owed on the Series 2008 Bonds and the Series 2012 Bonds, the revenues derived by the City from the 4.5% HOT will be applied to that purpose prior to such revenues from the 4.5% HOT being available to pay the Series 2013 Bonds. See "APPENDIX C – CERTAIN REVISIONS TO 2008 OFFICIAL STATEMENT."

In the ordinance authorizing the issuance of the Series 2013 Bonds, the City has covenanted that it will not issue any additional bonds or incur other obligations payable from and secured by a lien on and pledge of the revenues derived by the City from the 4.5% HOT that is senior to the lien securing the Series 2013 Bonds, other than obligations issued to refund the Series 2008 Bonds or the Series 2012 Bonds, or obligations issued to refund those refunding obligations, for debt service savings.

THE INTEREST RATE MANAGEMENT AGREEMENT

The information in this heading supersedes the information under the caption "THE INTEREST RATE MANAGEMENT AGREEMENT" in the 2008 Official Statement.

Under the Ordinance, payments made under a Credit Agreement may be treated as an obligation payable solely from and equally and ratably secured by a lien on the Pledged Revenues on a parity with the Series 2008 Bonds.

In addition to the payment obligations of the City under the terms of the Reimbursement Agreements, in conjunction with the delivery of the Series 2008 Bonds, the City entered into an ISDA Master Agreement dated as of August 7, 2008, a schedule attached thereto and a confirmation, dated as of August 7, 2008, all between the City and Morgan Keegan Financial Products, Inc., which formally changed its name to Raymond James Financial Products, Inc. on July 22, 2013 ("RJFP"), a Replacement Transaction Agreement, dated as of August 7, 2008, between the City, RJFP and Deutsche Bank AG, New York Bank ("Deutsche Bank") and a Credit Support Annex, dated as of August 7, 2008, between the City and Deutsche Bank (collectively, the "Series 2008 Interest Rate Management Agreement"). Under the terms of the Series 2008 Interest Rate Management Agreement, the City is obligated to make payments to RJFP calculated on a notional amount equal to the scheduled outstanding principal amount of the Series 2008 Bonds and a fixed interest rate of 3.2505% per annum, and RJFP is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the Series 2008 Bonds and a variable rate equal to 67% of the one-month London Interbank Borrowing Rate ("LIBOR") for U.S. deposits. Payments under the Series 2008 Interest Rate Management Agreement will be made on a net basis on the fifteenth day of each month, commencing in September 2008 and ending in November 2029. Interest on the Series 2008 Bonds is calculated on the basis of an index that differs from the LIBOR index used to calculate amounts payable to the City under the terms of the Series 2008 Interest Rate Management Agreement. The City entered into the Series 2008 Interest Rate Management Agreement in conjunction with the issuance of the Series 2008 Bonds in order to effect and quantify a debt service savings on outstanding bonds that were refunded with the proceeds of variable rate bonds. Payments to be made by the City under the terms of the Series 2008 Interest Rate Management Agreement (other than a "termination payment" as discussed below) are payable solely from and equally and ratably secured by a lien on the Pledged Revenues of equal rank and dignity with the lien and pledge securing the payment of the Series 2008 Bonds. As of August 15, 2021, the net aggregate monthly payments the City has made under the Series 2008 Interest Rate Management Agreement equal $44,447,276.92.

If any party to the Series 2008 Interest Rate Management Agreement commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, the Series 2008 Interest Rate Management Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the Series 2008 Interest Rate Management Agreement will continue in existence until November 2029. If the Series 2008 Interest Rate Management Agreement is terminated, then current market conditions will determine whether the City will owe a termination payment to RJFP or be entitled to receive a termination payment from RJFP. Such termination payment generally would be based on the market value of the Series 2008 Interest Rate Management Agreement on the date of termination and could be substantial. In addition, a partial termination of the Series 2008 Interest Rate Management Agreement could occur to the extent any Series 2008 Bonds are redeemed pursuant to the City exercising its right to effect an optional redemption of Series 2008 Bonds. If such optional redemption were to occur, termination payments related to the portion of the Series 2008 Interest Rate Management Agreement to be terminated will be owed by either the City or Deutsche Bank, depending on the existing market conditions. The obligation of the City to pay a termination payment to Deutsche Bank could result in the City issuing Parity Bonds or Junior Subordinate Lien Bonds to enable the City to make such a termination payment.

SPECIAL CONSIDERATIONS RELATING TO REMARKETING OF BONDS

Each Remarketing Agent is Paid by the City. Each Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Series 2008 Bonds of a subseries that are optionally or mandatorily tendered to it or the Tender Agent by the beneficial owners thereof (subject, in each case, to the terms of the Remarketing Agreements). Each Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of each Remarketing Agent may differ from those of beneficial owners and potential purchasers of Series 2008 Bonds.

Determination of Interest Rates by the Remarketing Agents. On each Rate Determination Date, each Remarketing Agent is required to determine the interest rate that will be effective with respect to the Series 2008 Bonds of a subseries for the next Interest Period. That rate is required by the Ordinance to be the lowest rate necessary in the judgment of the Remarketing Agent to remarket the respective subseries of Series 2008 Bonds at par, plus accrued interest on the applicable Rate Determination Date. For example, while a subseries of the Series 2008 Bonds bear interest at a Weekly Rate on Wednesday (the Rate Determination Date), the Remarketing Agent for that subseries of Series 2008 Bonds will determine the interest rate that will be effective on such date.

Each Remarketing Agent Routinely Purchases Series 2008 Bonds for its Own Account. The Remarketing Agents act as remarketing agent for a variety of variable rate demand obligations issued by many issuers and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agents are permitted, but not obligated, to purchase tendered Series 2008 Bonds for their own account and, in their sole discretion, routinely acquire such tendered Series 2008 Bonds in order to achieve a successful remarketing of the Series 2008 Bonds (i.e., because there otherwise are not enough buyers to purchase the Series 2008 Bonds) or for other reasons. However, the Remarketing Agents are not obligated to purchase Series 2008 Bonds, and may cease doing so at any time without notice. If a Remarketing Agent ceases to purchase Series 2008 Bonds, it may be necessary for the Paying Agent to draw on a Letter of Credit to pay tendering bondholders.

Each Remarketing Agent may also make a secondary market in the Series 2008 Bonds by routinely purchasing and selling Series 2008 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at, above, or below par. No notice period is required for such purchases. However, a Remarketing Agent is not required to make a secondary market in the Series 2008 Bonds. Thus, investors who purchase the Series 2008 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2008 Bonds other than by tendering the Series 2008 Bonds in accordance with the tender process.

Each Remarketing Agent may also sell any Series 2008 Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2008 Bonds. The purchase of Series 2008 Bonds by a Remarketing Agent may create the appearance that there is greater third party demand for the Series 2008 Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2008 Bonds being tendered in a remarketing.

Series 2008 Bonds May be Offered at Different Prices on Any Date. Pursuant to the Remarketing Agreements, on each Rate Determination Date, the Remarketing Agents are required to determine the interest rate that will be effective with respect to a subseries of the Series 2008 Bonds on such date. That rate is required by the Ordinance to be the lowest rate necessary in the judgment of the applicable Remarketing Agent to remarket the respective subseries of the Series 2008 Bonds at par, plus accrued interest, if any, on the Rate Determination Date. The interest rate will reflect, among other factors, the level of market demand for the Series 2008 Bonds (including whether a Remarketing Agent is willing to purchase Series 2008 Bonds for its own account). There may or may not be Series 2008 Bonds tendered and remarketed on a Rate Determination Date, and the Remarketing Agents may or may not be able to remarket any Series 2008 Bonds tendered for purchase on such date at par. The Remarketing Agents are not obligated to advise purchasers in a remarketing if they do not have third-party buyers for all of the Series 2008 Bonds at the remarketing price.

Under Certain Circumstances, the Remarketing Agents May Be Removed, Resign or Cease Remarketing the Series 2008 Bonds, Without a Successor Being Named. Under certain circumstances a Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreements. In the event there is no Remarketing Agent for a subseries of the 2008 Bonds, bondholders may tender their Series 2008 Bonds to the Paying Agent/Registrar. In that event, the Series 2008 Bonds will bear interest at the rate set in accordance with the terms of the Ordinance, the remarketing of the particular subseries of Series 2008 Bonds will cease until a successor remarketing agent for such subseries has been appointed. In this case, tendering bondholders will be paid from draws on the applicable Letter of Credit.

RATINGS

Moody's Investors Service ("Moody's") has assigned to the Subseries 2008A Bonds the rating of " ", based on the ratings assigned to UBS, and has assigned to the Subseries 2008B Bonds a rating of " ", based on the ratings assigned to SMBC. S&P Global ("S&P"), has assigned to the Subseries 2008A Bonds the rating of " ", based on the ratings assigned to UBS, and has assigned to the Subseries 2008B Bonds a rating of " ", based on the ratings assigned to SMBC. The Series 2008 Bonds have received an underlying long-term rating of " " from Moody's and a rating of " " from S&P.

The ratings described above reflect only the views of Moody's and S&P, and any explanation of the significance of the ratings may be obtained only from such organizations. There is no assurance that any of the ratings will continue for any given period of time or that any rating may not be lowered or withdrawn if, in the judgment of a rating agency, circumstances so warrant. Any such downward change in or withdrawal of the rating may have an adverse effect on the secondary market prices of the Series 2008 Bonds.

THE CITY; DOCUMENTS INCORPORATED BY REFERENCE

General

The 2008 Official Statement, other than Appendices A, B, and F thereto, is attached hereto as APPENDIX B, and is incorporated herein by reference. The information in APPENDIX C to this Information Circular supersedes certain information in the 2008 Official Statement.

The City files periodic reports and other information regarding the Series 2008 Bonds with the Municipal Securities Rulemaking Board (the "MSRB"). These reports and information are available free of charge from the MSRB via the Electronic Municipal Market Access system ("EMMA") at www.emma.msrb.org.

This Information Circular "incorporates by reference" the information regarding the Series 2008 Bonds the City files with the MSRB, which means that important information is disclosed to you by referring you to those documents. The information regarding the Pledged Revenues incorporated by reference is an important part of this Information Circular. The information incorporated by reference includes the City's annual report for the fiscal year ended September 30, 2020, including the consolidated financial statements and consolidating schedules and Management Discussion and Analysis of Financial Condition and Results of Operations that are a part thereof, as well as any filing made by the City in the future. Certain information relating to the current operations and management of the Convention Center is set forth below under " – The Convention Center".

Any statement incorporated or deemed to be incorporated by reference will be deemed to be modified or superseded for purposes of this Information Circular to the extent that a statement contained in this Information Circular modifies or supersedes that statement.

The Convention Center

The Convention Center is located in downtown Austin at 500 East Caesar Chavez Street (formerly First Street) on the east side of the City's central business district. The Convention Center occupies four blocks bounded by Trinity Street on the west, Red River Street on the east, Fourth Street on the north, and Cesar Chavez Street on the south. There are more than 12,000 hotel rooms within a 2 mile radius of the Convention Center. The construction of the Austin Convention Center commenced in late 1989 and it opened for business in July 1992 and was expanded in 2002. In June 1992, the City acquired a 10-story, 1,100 space parking garage as a part of the Convention Center located at 201 East Second Street, one block from the Convention Center. The Convention Center underwent a $110-million expansion in 2002 that brought the size of the facility to roughly 881,400 gross square feet. The Convention Center currently features roughly 247,052 square feet of contiguous and column-free exhibition space within five exhibition halls. The expansion included the addition of the Grand Ballroom, measuring approximately 43,300 square feet. Located in tech-heavy Austin, the Convention Center's telecommunications and infrastructure enables the facility to support gigabit Ethernet over its fiber optic network, making exhibitions and trade shows a more "hands-on" experience for both attendees and exhibitors. The Convention Center is a LEED Gold-certified facility. In 2005, the Convention Center Department constructed a 685 space parking garage located at 601 East 5th Street. The City has entered into a management contract with Levy Premium Foodservice, L.L.C. to provide catering and beverage services at the Austin Convention Center that expires September 30, 2022.

In addition, the City owns and operates the Palmer Events Center and parking garage as a part of the City's Convention Center Department. The Palmer Events Center and parking garage are located at 900 Barton Springs Road next to Lady Bird Lake (formerly Town Lake) and are utilized for arts and craft shows, concerts, trade shows and small conventions. The Palmer Events Center has approximately 70,000 square feet of exhibit space and five meeting rooms. The parking garage has 1,200 parking spaces. On January 5, 2004, a Hilton Hotel adjacent to the Convention Center opened for business. This hotel is owned by Austin Convention Enterprises, Inc., a non-profit public facilities corporation created by the City to act on its behalf in connection with the development of such hotel.

The Convention Center is operated by the City as a City Department and a separate enterprise fund of the City. The Convention Center Department was created by the City Council in 1989 and initially included the Austin Convention and Visitor's Bureau which is now a separate non-profit corporation. In July 2021, the City of Austin named Trisha Tatro as the director for the Austin Convention Center Department. Prior to her appointment as Director, Ms. Tatro had served as interim director since February 2020 and has been with the Austin Convention Center for 19 years.

MISCELLANEOUS

This Information Circular has been prepared for use by Raymond James & Associates, Inc., as Remarketing Agent for the Subseries 2008A Bonds and for use by BofA Securities, Inc., as Remarketing Agent for the Subseries 2008B Bonds, for the sole purpose of providing information with respect to the Series 2008 Bonds in connection with the substitution of the Subseries A Letter of Credit. Except with respect to such matters as provided for in this Information Circular, the 2008 Official Statement has not been updated since its date.

APPENDIX A

INFORMATION REGARDING THE BANKS

The information contained in this Appendix A relates to and has been obtained from the Banks. The delivery of this Information Circular shall not create any implication that there has been no change in the affairs of the Banks since the date hereof, or that the information contained or referred to in this Appendix A is correct as of any time subsequent to its date.

UBS AG

UBS AG with its subsidiaries (together, "UBS AG consolidated", or "UBS AG Group"; together with UBS Group AG, which is the holding company of UBS AG, and its subsidiaries, "UBS Group", "Group", "UBS" or "UBS Group AG consolidated") provides financial advice and solutions to private, institutional and corporate clients worldwide, as well as private clients in Switzerland.

UBS AG is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations as an Aktiengesellschaft, a corporation limited by shares. Its two registered offices are located in Zurich and Basel, Switzerland. According to article 2 of the articles of association of UBS AG dated 26 April 2018 ("Articles of Association"), the purpose of UBS AG is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad. UBS AG may establish branches and representative offices as well as banks, finance companies and other enterprises of any kind in Switzerland and abroad, hold equity interests in these companies, and conduct their management. UBS AG is authorized to acquire, mortgage and sell real estate and building rights in Switzerland and abroad. UBS AG may borrow and invest money on the capital markets. UBS AG is part of the group of companies controlled by the group parent company UBS Group AG. It may promote the interests of the group parent company or other group companies. It may provide loans, guarantees and other kinds of financing and security for group companies.

In addition to being a financial holding company under the Bank Holding Company Act, under which the Federal Reserve Board has supervisory authority over its US operations, UBS AG maintains branches in the US, which are authorized and supervised by the Office of the Comptroller of the Currency. UBS AG will provide credit and/or liquidity facilities through its Stamford branch.

UBS files periodic reports with the Securities Exchange Commission (SEC). Additional information, including the most recent Annual Report on Form 20-F for the year ended December 31, 2020 and reports filed on Form 6-K, can be easily obtained from the SEC website (www.sec.gov).

SUMITOMO MITSUI BANKING CORPORATION

Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) ("SMBC") is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. ("SMFG") was established through a stock transfer as a holding company under which SMBC became a wholly-owned subsidiary. **SMFG reported ¥240,120,007 million (US$2.17 trillion) in consolidated total assets as of June 30, 2021.**

SMBC is one of the world's leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products, including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the New York State Department of Financial Services to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the New York State Department of Financial Services and the Federal Reserve Bank of New York.

Financial and Other Information

Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal year 2020 ended March 31, 2021, as well as other corporate data, financial information and analyses, are available in English on SMFG's website at www.smfg.co.jp/english.

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

The information contained in this Appendix relates to and has been obtained from the Banks. The delivery of this Information Circular shall not create any implication that there has been no change in the affairs of the Banks since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

APPENDIX B

2008 OFFICIAL STATEMENT

The information contained in this APPENDIX B reflects the Official Statement dated August 7, 2008, delivered in connection with the initial issuance of the Series 2008 Bonds, other than Appendices A, B and F thereto.

OFFICIAL STATEMENT
Dated August 7, 2008

Ratings: Moody's: "Aaa"/"VMIG-1"
Standard & Poor's: "AAA"/"A-1+"
(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

Delivery of the Bonds is subject to the receipt of the opinion of Fulbright & Jaworski L.L.P. Bond Counsel, to the effect that, assuming continuing compliance by the City with certain covenants contained in the Ordinance described herein and subject to the matters described under "Tax Exemption" herein, interest on the Bonds will be excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "Tax Exemption" herein, including the alternative minimum tax on corporations.

$125,280,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

Hotel Occupancy Tax
Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008

Consisting of

$62,640,000 Subseries A **$62,640,000 Subseries B**

Dated Date: Date of Original Delivery **Due: November 15, 2029**

The bonds offered hereby are the City of Austin, Texas (the "City") $125,280,000 Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 (the "Bonds"), issued as $62,640,000 Subseries A Bonds ("Subseries 2008A Bonds") and as $62,640,000 Subseries B Bonds ("Subseries 2008B Bonds"). The Bonds are issued pursuant to Chapters 1207 and 1371, Texas Government Code, as amended, and Chapter 334, Texas Local Government Code, as amended (the "Act"), and other applicable laws of the State of Texas, and an ordinance (the "Ordinance") adopted by the City and pricing certificated delegated thereunder. The Bonds are special obligations of the City that are equally and ratably payable from and secured by a lien on certain Pledged Revenues, such lien being junior and subordinate to the lien securing the payment of the Prior Lien Bonds (as defined in the Ordinance) now Outstanding. The Pledged Revenues consist primarily of a pledge, on a subordinate basis as noted above, of (i) that portion of revenues derived by the City from a hotel occupancy tax levied by the City pursuant to Chapter 351, Texas Tax Code, as amended, which is equal to at least 4.5% of the consideration paid by occupants of sleeping rooms furnished by hotels located within the corporate limits of the City in which the cost of occupancy is $2.00 or more a day (the "4.5% HOT"), and (ii) the available revenues from a special hotel occupancy tax deposited to the credit of the Venue Project Fund (the "2% HOT"), together with certain investment earnings, all as described herein. The City, pursuant to the Ordinance, does not grant any lien on or security interest in, or any mortgage on any of the physical properties of the City. THE BONDS DO NOT CONSTITUTE OR CREATE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO A PORTION OF THE REVENUES DERIVED FROM THE HOTEL OCCUPANCY TAX AS SPECIFICALLY DESCRIBED HEREIN) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS. SEE "SECURITY FOR THE BONDS" HEREIN. The City is also incurring additional obligations in connection with the issuance of the Bonds, specifically the City's obligations related to scheduled payments under the Series 2008 Interest Rate Swap Agreement and the Reimbursement Agreement related to the Bonds, all as more fully described herein. See "SECURITY FOR THE BONDS" and "THE INTEREST RATE MANAGEMENT AGREEMENT".

The Bonds will initially bear interest at an initial rate to be established on or about August 13, 2008 and to be in effect during the Initial Rate Period, which shall commence on the date of the initial issuance and delivery of the Bonds and continue to (but not include) August 21, 2008. Thereafter, the Bonds will bear interest at a Weekly Rate and the interest rate on the Bonds will be adjusted on each Wednesday (or the immediately preceding Business Day if such Wednesday is not a Business Day) of each week by Morgan Keegan & Company, Inc., as Remarketing Agent for the Subseries 2008A Bonds, and Banc of America Securities LLC, as the Remarketing Agent for the Subseries 2008B Bonds. The Bonds will continue to bear interest at a Weekly Rate unless, at the direction of the City and subject to the satisfaction of certain conditions precedent included in the Ordinance, the interest rate mode on the Bonds is changed to another type of interest rate mode. **This Official Statement describes terms and provisions applicable to the Bonds only while they are in the Weekly Mode. In the event of a conversion to another Mode, the Bonds will be subject to mandatory tender and potential purchasers of the converted Bonds will be provided with separate offering materials containing descriptions of the terms of the Bonds applicable to the Mode to which the Bonds are being converted.** The Bonds are subject to optional and mandatory redemption prior to maturity and to optional and mandatory tender, all as described herein. See "DESCRIPTION OF THE BONDS" herein.

The Bonds are issuable only in fully registered form in the denomination of $100,000 or any integral multiple of $5,000 in excess of $100,000, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act initially as Securities Depository of the Bonds, and individual purchases of the Bonds will be made in book-entry form only. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar named herein to the registered owners of the Bonds (as long as the book-entry-only system is in effect and DTC is the Securities Depository, Cede & Co.). Subsequent disbursements of such principal and interest will be made to the individual purchasers of beneficial interests in the Bonds. Interest on the Bonds in the Weekly Mode will be payable on the fifteenth day of each month (or the next succeeding Business Day) commencing September 15, 2008. Principal at maturity or upon redemption will be payable upon presentation and surrender at the designated payment/transfer office of the Paying Agent/Registrar, which is Deutsche Bank Trust Company Americas, New York, New York (the "Designated Payment/Transfer Office"). The purchase price of the Bonds upon optional or mandatory tender for purchase will be payable by the Tender Agent upon presentation and surrender of the Bonds at the designated tender office of the Tender Agent (the "Tender Agent"), initially Deutsche Bank Trust Company Americas, in New York, New York, (the "Tender Office") which shall be established and maintained in accordance with the Ordinance. Notwithstanding the foregoing, during any period in which the beneficial ownership of the Bonds is in the book-entry system at a securities depository, the requirements in the Ordinance for holding, registering, delivering exchanging or transferring the Bonds are deemed modified to conform to the arrangements between the City and the Securities Depository.

Bondholders will (a) have the option to tender their Bonds for purchase at a price equal to the principal amount thereof, plus accrued interest, while in a Weekly Rate Period on seven days prior notice to the Tender Agent and at such other times and subject to the conditions described herein, (b) be required to tender their Bonds for purchase upon conversion of the interest rate on the Bonds to any other interest rate Mode that is not a Weekly Mode, (c) be required to tender their Bonds for purchase upon the expiration or replacement of a Credit Facility or Liquidity Facility, including the initial Liquidity Facility (described herein), and (d) be required to tender their Bonds for purchase under other circumstances described herein. All tenders are required to be made to the Tender Agent. Tendered Bonds may be remarketed and remain Outstanding. Bonds tendered for purchase will be paid, first from the proceeds of remarketing, if any, and second, from a Direct Pay Letter of Credit (the "Liquidity Facility") issued pursuant to a Reimbursement Agreement dated August 1, 2008, between the City and Dexia Crédit Local, acting through its New York Branch (the "Bank"). **The City has no obligation to purchase tendered Bonds.** (See "INITIAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT - General".)

DEXIA

In connection with the issuance of the Bonds, the City has entered into an interest rate swap agreement with Morgan Keegan Financial Products, Inc. and Duetsche AG, New York Branch to enable the City to substantially fix its interest obligation on the debt represented by Bonds (see "THE INTEREST RATE MANAGEMENT AGREEMENT").

Price: 100%

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinion of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. The opinion of Bond Counsel will be printed on or attached to the Bonds. (See APPENDIX D "Form of Bond Counsel's Opinion"). Certain legal matters will be passed on for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas. Certain legal matter will be passed upon for the Bank by its counsel, Andrews Kurth LLP, Houston, Texas.

It is expected that the Bonds will be delivered through the facilities of DTC on or about August 14, 2008.

MORGAN KEEGAN & COMPANY, INC. **BANC OF AMERICA SECURITIES LLC**

CITY OF AUSTIN

Elected Officials

		Term Expires June 20
Will Wynn	Mayor	2009
Lee Leffingwell	Councilmember Place 1	2012
Mike Martinez	Councilmember Place 2	2009
Randi Shade	Councilmember Place 3	2012
Laura Morrison	Councilmember Place 4	2012
Brewster McCracken	Councilmember Place 5	2009
Sheryl Cole	Councilmember Place 6	2009

Appointed Officials

Marc Ott	City Manager
Robert Goode	Assistant City Manager
Sue Edwards	Assistant City Manager
Rudy Garza	Assistant City Manager
Mike McDonald	Assistant City Manager
Bert Lumbreras	Assistant City Manager
Leslie Browder, CPA	Chief Financial Officer
Jeff Knodel, CPA	Deputy Chief Financial Officer
David Allan Smith	City Attorney
Shirley A. Gentry	City Clerk

BOND COUNSEL
Fulbright & Jaworski L.L.P.
Austin and Dallas, Texas

SECURITIES COUNSEL FOR THE CITY
McCall, Parkhurst & Horton L.L.P.
Austin and Dallas, Texas

FINANCIAL ADVISOR
The PFM Group
Austin, Texas

AUDITORS
KPMG LLP and R. Mendoza & Company, PC
Austin, Texas

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Treasurer
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Austin, Texas 78701
(512) 472–7194
allenc@pfm.com

No dealer, salesman or any other person has been authorized by the City or by the Underwriters to give any information or to make any representations, other than the information and representations contained herein, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, any of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

The price and other terms representing the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the bonds into investment accounts. In connection with the offering and sale of the Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in open markets. Such stabilizing, if commenced, may be discontinued at any time.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

Neither the City, the Financial Advisor nor the Underwriters make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company or its book-entry-only system, as such information has been furnished by The Depository Trust Company. This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.** See "OTHER RELEVANT INFORMATION – Forward-Looking Statements."

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OFFICIAL STATEMENT

$125,280,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

Hotel Occupancy Tax

Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008

Consisting of

$62,640,000 Subseries A **$62,640,000 Subseries B**

INTRODUCTION

This Official Statement, which includes the cover page and the appendixes hereto, sets forth information in connection with the issuance and sale by the City of Austin, Texas (the "City") of its Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008, consisting of $62,640,000 Subseries A (the "Subseries 2008A Bonds") and $62,640,000 Subseries B (the "Subseries 2008B Bonds, together with the Subseries 2008A Bonds, the "Bonds") in the original aggregate principal amount of $125,280,000.

The Bonds are being issued pursuant to Chapters 1207 and 1371, Texas Government Code, as amended, and Chapter 334, Texas Local Government Code, as amended (the "Act"), and an Ordinance of the City Council (the "Ordinance") adopted on July 24, 2008, which delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved a "Pricing Certificate" (the Ordinance together with the Pricing Certificate is collectively referred to herein as the "Ordinance"). Unless otherwise indicated, capitalized terms used in this Official Statement shall have the meanings established in the Ordinance. See APPENDIX C hereto for selected definitions of terms used in this Official Statement.

The Bonds are special limited obligations of the City, equally and ratably secured by a lien on certain "Pledged Revenues", which lien is junior and subordinate to the lien securing the payment of the Prior Lien Bonds now Outstanding. The Pledged Revenues consist primarily of a subordinate pledge of (i) that portion of the revenues derived by the City from the hotel occupancy tax levied by the City pursuant to Chapter 351, Texas Tax Code, as amended (the "Tax Act"), which is equal to at least 4.5% of the consideration paid by occupants of sleeping rooms (the "Qualified Hotel Rooms") furnished by hotels located within the corporate limits of the City in which the cost of occupancy is $2.00 or more a day (the "4.5% HOT") and (ii) the available revenues from a Special Hotel Occupancy Tax deposited to the credit of the Venue Project Fund (the "2% HOT"), together with certain investment earnings, all as described herein. The City, pursuant to the Ordinance, does not grant any lien on or security interest in, or any mortgage on any of the physical properties of the City. See "SECURITY FOR THE BONDS – Pledge" herein.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATION DEBT OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO A PORTION OF THE PLEDGED REVENUES) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS.

The Ordinance permits the issuance of additional bonds (the "Additional Bonds") which rank on a parity with, or subordinate to, the Bonds. See "SECURITY FOR THE BONDS – Additional Bonds" herein.

PLAN OF FINANCING

Authorization and Purpose

The Bonds are being issued to refund the outstanding maturities of the City's Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005, in the aggregate principal amount identified in APPENDIX E (the "Refunded Bonds"). The Bonds are to be issued pursuant to the Ordinance. The City is also incurring additional obligations in connection with the issuance of the Bonds, specifically the City's obligations related to payments under the Series 2008 Interest Rate Swap Agreement and the Liquidity Facility related to the Bonds, all as more fully described herein.

Refunded Bonds

The Refunded Bonds and interest due thereon are to be paid on the scheduled interest payment dates, the maturity dates, and redemption dates thereof from funds to be deposited with Deutsche Bank Trust Company Americas, New York, New York, as escrow agent (the "Escrow Agent") pursuant to a special escrow agreement (the "Escrow Agreement") between the City and the Escrow Agent.

The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, together with other legally available funds of the City, if any, the City will deposit with the Escrow Agent in a special escrow account (the "Escrow Fund") the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held uninvested, unless otherwise directed by the City, by the Escrow Agent in the Escrow Fund and used to redeem the Refunded Bonds. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. The moneys held in the Escrow Fund will not be available to pay the debt service on the Bonds.

By the deposit of the Bond proceeds and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have affected the defeasance of the Refunded Bonds in accordance with applicable law. As a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from such funds and cash held for such purpose by the Escrow Agent, and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from Pledged Revenues or for the purpose of applying any limitation on the issuance of Parity Obligations by the City.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund of any additional amounts required to pay the principal of and interest on the Refunded Bonds if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows.

Sources:	
Par Amount of Bonds	$125,280,000.00
City Contribution	8,600,000
Total	$133,880,000.00
Uses:	
Deposit to Escrow Fund	$122,272,250.00
Deposit to Reserve Fund	8,497,516.24
Underwriter's Discount	173,389.11
Cost of Issuance(1)	2,936,844.65
Total	$133,880,000.00

(1) Includes the cost of termination of the 2005 interest rate management agreement in relation to the Refunded Bonds; and underwriting, legal, accounting fees, initial fees of Paying Agent/Registrar, Initial Letter of Credit fees, publishing costs and printing expense.

THE CONVENTION CENTER

The Facilities

The Convention Center is located at 500 East Caesar Chavez Street on six city blocks on the east side of the City's central business district. The construction of the Austin Convention Center commenced in late 1989 and the Convention Center opened for business in July 1992. In June 1992 the City acquired a 10-story, 1,100 space parking garage as a part of the Austin Convention Center located at 201 East 2nd Street, approximately two blocks from the Austin Convention Center. An expansion of the Convention Center was completed in June of 2002 that approximately doubled the size of the facility. Five exhibit halls, two ballrooms, fifty-four meeting rooms and show offices are contained in the Austin Convention Center's 811,400 square feet of enclosed space. In addition, the Convention Center has two complete kitchen facilities and support space. The City has entered into a management contract with Aramark Sports and Entertainment Services of Texas, Inc. to provide catering and beverage services at the Austin Convention Center that expires September 30, 2012. In addition, the City owns and operates the new Palmer Events Center and parking garage as a part of the City's Convention Center Department. The Palmer Events Center and parking garage are located at 900 Barton Springs Road next to Lady Bird Lake (formerly Town Lake) and are utilized for arts and craft shows, concerts, trade shows and small conventions. The Palmer Events Center has approximately 70,000 square feet of exhibit space and five meeting rooms. The parking garage has 1,200 parking spaces. On January 5, 2004, a new Hilton Hotel adjacent to the Convention Center opened for business. This hotel is owned by Austin Convention Enterprises, Inc., a non-profit public facilities corporation created by the City to act on its behalf in connection with the development of such hotel.

Operations and Management

The Convention Center is operated by the City as a City Department and a separate enterprise fund of the City. The Convention Center Department was created by the City Council in 1989 and initially included the Austin Convention and Visitor's Bureau which is now a separate non-profit corporation. In January 2008, the City of Austin named Mark Tester as the new director for the Austin Convention Center Department. Mr. Tester was formerly the senior director of convention sales at Chicago's McCormick Place, the largest convention center in the Western hemisphere. Mr. Tester, a seasoned veteran in the meeting business industry for 20 years, brings an impressive resume to his new position. He was with the Chicago Convention and Tourism Bureau for ten years, holding several high-level positions, including vice president of convention sales and senior director of new business development.

SECURITY FOR THE BONDS

Pledge

The Bonds and any Additional Bonds hereafter issued are special limited obligations of the City that are, together with other Parity Obligations, equally and ratably secured by a lien on the "Pledged Revenues" (as hereinafter described) such lien being junior and subordinate to the lien securing the payment of the Prior Lien Bonds now Outstanding. No bonds or other obligations may be issued in the future that are secured by a lien on Pledged Revenues senior to the lien securing the Bonds. The Pledged Revenues consist primarily of that portion of the revenues derived by the City from the 4.5% HOT and the 2% HOT, together with certain investment earnings, all as described herein. The City, pursuant to the Ordinance, does not grant any lien on or security interest in, or any mortgage of any of the physical properties of the City or a security interest in the revenues of the Convention Center.

The City covenants and represents in the Ordinance that the Pledged Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the City other than to the payment of the Prior Lien Bonds, the Bonds, Additional Bonds (including Parity Obligations and Junior Subordinate Lien Bonds) if certain tests set forth in the Ordinance are met, Refunding Bonds, obligations related to the foregoing and Junior Obligations. See "SECURITY FOR THE BONDS – Additional Bonds" below.

The City, pursuant to the Ordinance, grants a first lien on the Bond Fund and the Reserve Fund to secure the payment of principal of, premium, if any, and interest on the Bonds and any Additional Bonds and, and in the case of the Bond Fund, to secure payment of amounts due on any Parity Obligations and Junior Obligations. The City does not grant any lien on or security interest in, or any mortgage of any of the physical properties or revenues of the City other than the Pledged Revenues. See "SECURITY FOR THE BONDS – Funds and Flow of Funds" herein.

THE BONDS AND OTHER PARITY OBLIGATIONS DO NOT CONSTITUTE GENERAL OBLIGATION DEBT OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO THE PLEDGED REVENUES) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS.

Excluding the Refunded Bonds, as of August 1, 2008, there are two series of Prior Lien Bonds Outstanding in the aggregate principal amount of $22,600,000 and $50,605,000 and having final maturity dates of November 15, 2029 and November 15, 2019, respectively. See "DEBT SERVICE REQUIREMENTS."

Levy of Hotel Occupancy Tax

The City has levied, and while any Bonds remain Outstanding the City shall continue to levy, a hotel occupancy tax (the "Hotel Occupancy Tax") on the cost of occupancy of any sleeping room furnished by any hotel within the corporate limits of the City, in which the cost of occupancy is $2.00 or more a day, at a rate of at least 7% of the consideration paid by the occupant of the sleeping room to the hotel, all as authorized by the Tax Act. In addition, the City has levied, and while any Bonds remain Outstanding the City shall continue to levy, a special hotel occupancy tax (the "Special Hotel Occupancy Tax") on the cost of occupancy of any sleeping room furnished by any hotel within the corporate limits of the City, in which the cost of occupancy is $2.00 or more a day, at a rate of at least 2% of the consideration paid by the occupant of the sleeping room to the hotel, all as authorized by Subchapter H of Chapter 334, Texas Local Government Code, and an election held in the City on May 2, 1998. A hotel is a building where members of the public obtain sleeping accommodations for consideration, such as a hotel, motel, tourist home, tourist house, tourist court, lodging house, inn, rooming house, or bed and breakfast in the City. A hotel does not include a hospital, sanitarium, nursing home, or dormitory or other housing facility owned or leased and operated by a public, private or independent institution of higher education used for the purpose of providing sleeping accommodations for students enrolled or others attending educational programs or other activities at such institution of higher education. The City further covenants in the Ordinance to enforce the provisions of the Ordinance, or any other ordinance levying a hotel occupancy tax, concerning the collection, remittance and payment of the Hotel Occupancy Tax and the Special Hotel Occupancy Tax. As described above, the City, pursuant to the Ordinance, has pledged the Pledged Revenues to the payment of the Bonds.

A number of factors, many of which may be beyond the control of the City, could have an adverse impact on hotel occupancy levels in the Austin market generally, including adverse changes in the national economy and levels of corporate travel and tourism, competition from hotels in other markets, energy costs, governmental rules and policies, potential environmental and other liabilities, and interest rate levels. Corporate travel and tourism are highly dependent upon gasoline and other fuel prices, airline fares, and the national economy. The hotel occupancy tax revenues largely depend on the occupancy and average daily rates at hotels located within the City. Key factors that may adversely affect the amount of hotel occupancy tax rate revenues generated from the rental of hotel rooms include: market support; general levels of convention business; levels of tourism; seasonality; and competition from other markets. Events such as terrorist attacks have had and in the future could have an adverse impact on hotel occupancy levels in the City.

Historical Hotel Occupancy Tax Receipts

Pursuant to state law and an implementing ordinance, the City has levied a tax upon the cost of occupancy of any Qualified Hotel Room since 1971. The City ordinance authorizing this tax also provides rules and regulations for collection, describes violations, requires reports and provides penalties for violations. In the Ordinance the City has pledged a portion of its Hotel Occupancy Tax revenues (equal to at least $.045 per dollar of consideration paid by occupants of Qualified Hotel Rooms) and the Special Hotel Occupancy Tax revenues (equal to $0.02 per dollar of consideration paid by occupants of Qualified Hotel Rooms). The Ordinance affirms that, subject to the prior lien on the Pledged Revenues securing the Prior Lien Bonds, at least $0.045 per dollar (from the total Hotel Occupancy Tax currently levied at $0.07 per dollar of consideration paid by occupants of Qualified Hotel Rooms) and all of the proceeds of the Special Hotel Occupancy Tax deposited to the Venue Project Fund are to be allocated to provide for the payment of the Parity Bonds, other Parity Obligations and Junior Obligations, all in the manner and with such priority of payment as described herein and in the Ordinance.

Historically such revenues have generated debt service coverage in the range of 1.30x – 1.90x for obligations payable therefrom, including the Refunded Bonds. Coverage can be affected by several factors beyond the control of the City. See "Levy of Hotel Occupancy Tax" herein.

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Historical Hotel Occupancy Tax Collections (1)

The following table reflects the City's hotel occupancy tax collections for the past fourteen years. Hotel occupancy tax collections are affected by the number of rooms available, the level of occupancy and the average room rate charged. The Austin Convention and Visitor's Bureau reports that city-wide occupancy for 2008 (through May of 2008) was 64.83% with an average room rate of $112.27. There are approximately 26,018 rooms available city-wide, including 800 rooms in the Hilton Hotel adjacent to the Austin Convention Center.

Table 1

Fiscal Year Ended September 30	1st Quarter October -December	2nd Quarter January - March	3rd Quarter April - June	4th Quarter July - September	Total	Pledged Hotel Tax Revenue	Total Annual Increase/ (Decrease)
	(In thousands)						
1995	$ 3,115	$ 2,870	$ 3,501	$ 3,654	$13,140	$ 8,447	14.50%
1996	3,494	3,203	3,763	3,800	14,260	9,167	8.50%
1997	3,537	3,353	3,860	4,468	15,218	9,783	6.70%
1998 (1)	4,539	4,284	4,936	5,061	18,820	12,107	23.70%
1999	5,612	5,552	6,375	7,073	24,612	12,598	30.80%
2000	6,637	6,264	7,573	8,284	28,758	14,399	16.80%
2001 (2)	7,595	7,671	8,043	7,836	31,145	15,580	8.30%
2002	5,832	5,355	6,350	7,222	24,759	12,380	(20.50%)
2003	5,766	5,874	7,045	6,823	25,508	12,754	3.00%
2004	6,136	5,413	6,537	7,292	25,378	12,689	(0.51%)
2005	6,847	6,393	7,901	8,937	30,078	15,039	18.50%
2006	7,730	8,673	9,610	10,545	36,558	18,279	21.50%
2007	9,739	9,481	11,485	11,467	42,172	21,086	15.40%
2008	10,923	10,087	N/A	N/A	N/A	N/A	N/A

(1) Includes Special Hotel Occupancy Tax. Tax levy increased from 7% to 9% effective August 1, 1998, pursuant to Ordinance No. 980709-G, which amended Section 5-3-2(a) of Chapter 5-3 of Title V of the 1981 Code of the City of Austin. Additional 2% tax represents the Special Hotel Occupancy Tax and is pledged to (i) the City's Outstanding Convention Center/Waller Creek Venue Project Bonds, Series 1999A and (ii) subject to such pledge, the Parity Obligations (including the Bonds).

(2) Beginning in fiscal year 2001, the City implemented GASB Statement No. 33, which changes the method of reporting tax collections in the City's financial statements. This table will continue to be reported on a cash basis to provide a more meaningful comparison.

Source: City of Austin, Texas.

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Top Twenty Hotel Occupancy Taxpayers for Fiscal Year 2007/2008 through May 31, 2008

Name	Total Collections	Percent of Total Collections
Austin Hilton Convention Hotel	$2,538,108.42	7.76%
Four Seasons Hotel	1,565,086.32	4.79%
Stouffer Renaissance Austin Hotel	1,364,323.91	4.17%
Hyatt Regency Austin	1,249,642.11	3.82%
Omni Austin Hotel	1,103,496.64	3.38%
Radisson Hotel Town Lake	900,771.75	2.76%
Driskill Hotel	874,283.93	2.67%
Sheraton Austin	803,850.66	2.46%
Courtyard by Marriott - Downtown	786,449.26	2.41%
Intercontinental Hotel	736,702.12	2.25%
Embassy Suites - Town Lake #510	718,262.48	2.20%
Capital Place Hotel Austin	644,965.42	1.97%
Doubletree Hotel Austin	574,893.31	1.76%
Doubletree Guest Suites	562,983.64	1.72%
Hampton Inn and Suites	543,530.53	1.66%
Omni Austin Southpark	507,054.55	1.55%
Hilton - Austin Airport	468,370.20	1.43%
Marriott – Austin South	451,010.37	1.38%
Embassy Suites Austin - Arboretum	448,569.36	1.37%
Holiday Inn – Town Lake	392,155.38	1.20%

Source: City of Austin, Texas.

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Historical Hotel Occupancy Data

Fiscal Year Ended September 30	Average Occupancy	Number of Rooms	Average Room Rate
2000	74.90%	21,445	$ 90.34
2001	62.10%	23,952	$ 81.98
2002	56.80%	25,373	$ 78.28
2003	56.30%	25,373	$ 76.66
2004	62.20%	25,386	$ 79.40
2005	64.01%	25,425	$ 76.69
2006	67.21%	26.231	$ 89.52
2007	70.13%	25,998	$106.19
2008 May	64.83%	26,018	$112.27

Source: Smith Travel Research Data.

Funds and Flow of Funds

Hotel Occupancy Tax Special Funds. In accordance with the ordinances authorizing the issuance of the Prior Lien Bonds secured by a lien on and pledge of the Pledged Revenues, the following special funds and accounts have been created, established and shall be maintained while any of the Prior Lien Bonds remain Outstanding:

(1) Convention Center Hotel Occupancy Tax Fund ("Tax Fund");
(2) Convention Center Hotel Occupancy Tax Bond Debt Service Fund ("Senior Debt Service Fund");
(3) Subordinate Lien Hotel Occupancy Debt Service Fund ("Original Subordinate Debt Service Fund", together with the Senior Debt Service Fund, the "Debt Service Fund");
(4) Convention Center Hotel Occupancy Tax Bond Debt Service Reserve Fund ("Senior Debt Service Reserve Fund"); and
(5) Subordinate Lien Hotel Occupancy Tax Debt Service Reserve Fund ("Original Subordinate Debt Service Reserve Fund," and together with the Senior Debt Service Reserve Fund, the "Debt Service Reserve Fund").

Such funds and accounts may also include any additional accounts or subaccounts as may from time to time be designated by the City, including specifically rebate accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, provided such accounts or subaccounts are not inconsistent with the ordinances authorizing the issuance of the Prior Lien Bonds and the Ordinance.

Special Hotel Occupancy Tax Special Funds. In accordance with the ordinance authorizing the issuance of the Special Venue Project Bonds (which also constitute Prior Lien Bonds), the City confirms the establishment of the Venue Project Fund maintained at an official depository of the City for the Convention Center/Waller Creek Venue Project in accordance with Section 334.042 of the Venue Act and the ordinances authorizing the issuance of such Prior Lien Bonds and the establishment of the following sub-accounts within such Venue Project Fund on the books of the City for the benefit of such Prior Lien Bonds:

(1) Convention Center/Waller Creek Venue Project Special Hotel Occupancy Tax Account ("Tax Account");
(2) Convention Center/Waller Creek Venue Project Bond Debt Service Account ("Debt Service Account"); and
(3) Convention Center/Waller Creek Venue Project Bond Reserve Account ("Debt Service Reserve Account").

Such funds and accounts may also include any additional accounts or subaccounts as may from time to time be designated by the City, including specifically rebate accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, provided such accounts or subaccounts are not inconsistent with the ordinance authorizing the issuance of the Special Venue Project Bonds and the Ordinance.

Special Funds for Parity Obligations. For the benefit of the Holders of the Parity Bonds and the beneficiaries of the other Parity Obligations, the City agrees and covenants to establish and maintain the following special funds or accounts:

(1) 2008 Subordinate Lien Hotel Occupancy Tax Fund (the "Bond Fund") for the payment of the Parity Obligations when and as the same shall become due and payable, and

(2) 2008 Subordinate Lien Hotel Occupancy Tax Reserve Fund (the "Reserve Fund") to provide a reserve to pay the principal of and interest on the Parity Bonds when funds in the Bond Fund are insufficient.

The Bond Fund and Reserve Fund may also include any additional accounts or subaccounts as may from time to time be designated by the City, including specifically rebate accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, provided such accounts or subaccounts are not inconsistent with the provisions of the Ordinance.

Flow of Funds regarding Pledged Hotel Occupancy Tax Revenues. The City covenants and agrees that all Pledged Hotel Occupancy Tax Revenues shall be deposited as received into the Tax Fund. Money from time to time credited to the Tax Fund shall be applied as follows in the following order of priority:

<u>First</u>, to transfer all amounts to the Debt Service Fund required by the ordinances authorizing the issuance of Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

<u>Second</u>, to transfer all amounts to the Debt Service Reserve Fund required by the ordinances authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

<u>Third</u>, to transfer to the Bond Fund all amounts necessary to provide for the payment of Parity Obligations.

<u>Fourth</u>, to transfer to the Reserve Fund the amounts required as described under the heading "SECURITY FOR THE BONDS – Reserve Fund."

Fifth, to the payment of all Junior Obligations secured under the Ordinance on a pari passu basis

<u>Sixth</u>, for any lawful purpose under the Tax Act.

Flow of Funds regarding Special Hotel Occupancy Tax Revenues. The City covenants and agrees that all receipts and revenue collected and received by the City from the Special Hotel Occupancy Tax shall be deposited to the credit of the Venue Project Fund and more particularly to the credit of the Tax Account. Following the issuance of the Bonds and while Parity Obligations and Junior Obligations remain Outstanding, money from time to time credited to the Tax Account shall be applied as follows in the following order of priority:

<u>First</u>, to transfer all amounts to the Debt Service Account required by the ordinances authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

<u>Second</u>, to transfer all amounts to the Debt Service Reserve Account required by the ordinances authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

<u>Third</u>, to transfer to the Bond Fund all amounts necessary to provide for the payment of the Bonds and Parity Obligations related to the Bonds in the manner and to the extent required by the Ordinance.

<u>Fourth</u>, to transfer to the Reserve Fund the amounts required as described under the heading "SECURITY FOR THE BONDS – Reserve Fund."

Fifth, to the payment of all Junior Obligations secured under the Ordinance on a prior pari passu basis

<u>Sixth</u>, to pay the costs of operating or maintaining the Convention Center/Waller Creek Venue Project.

Bond Fund

In addition (and subject) to the deposits to the Bond Fund for the payment of the Prior Lien Bonds, the City covenants and agrees that prior to each interest payment date, stated maturity date and mandatory redemption date for the Parity Bonds (and prior to the dates payments are due on other Parity Obligations) there shall be deposited into the Bond Fund, which is to be an Eligible Account held for the benefit of the Parity Obligations, from the Pledged Revenues, an amount equal to one hundred percent (100%) of the amount required to fully pay the amount then due and payable on the Parity Obligations, and such deposits are required to be made in substantially equal quarterly installments (based on the total annual Debt Service Requirements to be paid on the Bonds divided by the number of Transfer Dates (i.e. February 14, May 14, August 14, and November 14) to occur during the period covered by such calculation) on or before each Transfer Date, beginning August 14, 2008.

In addition, on each Transfer Date, the City covenants and agrees to cause to be deposited into the Bond Fund from the Pledged Revenues an amount calculated to pay all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Parity Bonds in accordance with their terms, including without limitation, all fees charged or incurred by the Paying Agent/Registrar and any Remarketing Agent, or Tender Agent, and for paying agent/registrar services rendered in connection with the Parity Bonds.

Money credited to the Bond Fund shall be used solely for the purpose of paying on a *pari passu* basis (except as otherwise described herein) principal (at maturity or prior redemption or to purchase Parity Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on Parity Bonds and all other amounts due on other Parity Obligations, plus all other charges, costs and expenses relating to such payment, including those described above. On or before each payment due date for the Parity Obligations, the City shall transfer from the Bond Fund to the appropriate paying agent/registrar amounts due on the Parity Obligations on such date.

Reserve Fund

The City shall establish and maintain as hereinafter provided a balance in the Reserve Fund equal to the Reserve Fund Requirement. The Reserve Fund Requirement is an amount equal to the least of: (i) 10% of the Outstanding principal amount of the Parity Bonds, or (ii) the maximum annual Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Parity Bonds at any time Outstanding, or (iii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of Section 148 of the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder. By reason of the issuance of the Bonds the Reserve Fund Requirement will be $8,497,516.24 and immediately following the delivery of the Bonds, the City shall cause to be deposited to the credit of the Reserve Fund an amount equal to $8,497,516.24 to fully fund the Reserve Fund Requirements.

In any Transfer Period in which the Reserve Fund contains less than the Reserve Fund Requirement or in which the City is obligated to repay or reimburse any issuer of a Reserve Fund Surety Bond (in the event such Reserve Fund Surety Bond is drawn upon), then after making all required transfers to the Bond Fund, there is required to be transferred into the Reserve Fund from the available Pledged Revenues on each Transfer Date such amounts as are necessary to reestablish the Reserve Fund Requirement and satisfy any repayment obligations to the issuer of any Reserve Fund Surety Bond. After such amount has been accumulated in the Reserve Fund and after satisfying any repayment obligation to any issuer of a Reserve Fund Surety Bond and so long thereafter as such fund contains such amount and all such repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in such fund shall be transferred to the Bond Fund. But if and whenever the balance in the Reserve Fund is reduced below the Reserve Fund Requirement or any Reserve Fund Surety Bond repayment obligation arises, transfers to the Reserve Fund shall be resumed and continued in the manner provided above to restore the Reserve Fund Requirement and to pay such reimbursement obligations.

The Reserve Fund shall be used to pay the principal of and interest on the Parity Bonds at any time when there is not sufficient money available in the Bond Fund for such purpose, and to make any payments required to satisfy repayment obligations to issuers of Reserve Fund Surety Bonds, and may be used to make the final payments for the retirement or defeasance of Parity Bonds.

If it is determined to be in the best interest of the City, the Reserve Fund Requirement may be funded in whole or in part by a Reserve Fund Surety Bond. In connection with a Reserve Fund Surety Bond and any Additional Bonds that are Parity Bonds, the City, the Paying Agent/Registrar and the Surety Bond Issuer may approve procedures providing for a reasonable allocation among Reserve Fund Surety Bonds and funds held in the Reserve Fund to make payments on Parity Bonds and to provide for repayments to issuers of Reserve Fund Surety Bonds.

Deficiencies in Funds or Accounts

Subject to satisfying the required payments for the benefit of the Prior Lien Bonds in accordance with the ordinances authorizing their issuance, if on any Transfer Date there shall not be transferred into any fund or account maintained pursuant to the Ordinance the full amounts required therein, amounts equivalent to such deficiency shall be set apart and transferred to such fund or account from the first available and unallocated Pledged Revenues, and such transfer shall be in addition to the amounts otherwise required to be transferred to such fund or account on any succeeding Transfer Date or Transfer Dates.

Investment of Funds; Transfer of Investment Income

Money in all funds required to be maintained by the Ordinance will, at the option of the City, be invested in the manner provided by Texas law; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any fund will be available at the proper time or times. All such investments shall be valued no less frequently than the last Business Day of the City's Fiscal Year at market value, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. For purposes of maximizing investment returns, money in such funds may be invested, together with money in other funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which shall not be deemed to be a loss of the segregation of such money or funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such funds are held by or on behalf of each such fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to the Bond Fund and Reserve Fund shall remain a part of the fund from which such investment was made and such investment interest and income shall reduce by like amount any required transfer to such funds from the Pledged Revenues, provided that at any time when the Reserve Fund has on deposit an amount in excess of the Reserve Fund Requirement, all investment interest and income received on any investment of funds in such fund shall be deposited to the credit of the Bond Fund.

Notwithstanding anything to the contrary contained in the Ordinance, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be (i) transferred into any rebate account or subaccount and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in an order, resolution or ordinance to prevent interest on any Parity Bonds from being includable within the gross income of the owners thereof for federal income tax purposes.

Additional Bonds

(a) No Additional Prior Lien Bonds. The City has covenanted that it will not issue any additional bonds or other obligations payable from and secured by a lien on and pledge of the Pledged Revenues that is senior to the lien securing the Parity Obligations.

(b) Refunding Bonds. The City has expressly reserved the right to issue refunding bonds to refund all or a portion of the Bonds or refunding bonds previously issued to refund Bonds. Such refunding bonds may be secured by a lien on Pledged Revenues on a parity with or subordinate to the lien securing the Bonds.

(c) Other Additional Obligations.

(A) In regard to the Pledged Revenues, the City has reserved and retained the right to issue or incur additional obligations secured in whole or in part by a parity lien on Pledged Revenues or by a lien junior and subordinate to the lien on such Pledged Revenues securing payment of the Parity Bonds; provided, however, that no such Parity Bonds or Junior Subordinate Lien Bonds may be issued unless the following conditions are satisfied:

(i) the City's Chief Financial Officer (or other officer of the City having primary responsibility for the financial affairs of the City) shall provide a certificate showing that, for the City's most recently completed Fiscal Year or for any consecutive 12 month period out of the most recent 18 months preceding the month the ordinance authorizing the issuance of the Parity Bonds or Junior Subordinate Lien Bonds is adopted (the "Coverage Period"), (x) the Pledged Hotel Occupancy Tax Revenues for the Coverage Period are equal to at least 130% of the maximum annual Debt Service Requirement of all Prior Lien Bonds and Parity Bonds then Outstanding scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Parity Bonds, if any, proposed to be issued, and deducting from the maximum annual Debt Service Requirement for such Prior Lien Bonds and Parity Bonds an amount equal to the revenues received from the Special Hotel Occupancy Tax for the Coverage Period and (y) the "Net Hotel Occupancy Tax Revenues" for the Coverage Period (i.e., the Pledged Hotel Occupancy Tax Revenues after deducting an amount equal to the maximum annual Debt Service Requirement applied in satisfying the coverage requirement in clause (x) above), together with any other revenues pledged in whole or in part to the payment of any Junior Subordinate Lien Bonds, are equal to at least 130% of the maximum annual Debt Service Requirement on all Junior Subordinate Lien Bonds then Outstanding and scheduled to occur in the then current or any future Fiscal Year after giving effect to the issuance of the Junior Subordinate Lien Bonds then being issued, if any; provided, however, at such time as the Prior Lien Bonds are no longer Outstanding, the coverage requirement in clause (x) above shall be reduced to 125% and the coverage requirement of clause (y) shall be reduced to 100%; and

(ii) provision is made in the ordinance authorizing issuance of the Parity Bonds or Junior Subordinate Lien Bonds, as the case may be, for the complete funding of any required reserves for payment of principal of and interest on such Parity Bonds or Junior Subordinate Lien Bonds as of the initial delivery thereof.

(B) The City is authorized to issue or incur Credit Agreements pursuant to the provisions described in this Section. The City may enter into a Credit Agreement payable from and secured in whole or in part by a lien on Pledged Revenues if it obtains either (i) the consent from any Credit Facility Provider issuing a Credit Facility in support of the Bonds or (ii) written confirmation from each Rating Agency then rating the Parity Bonds at the request of the City that issuance of the Credit Agreement will not cause a withdrawal or reduction in the rating assigned to the Bonds; provided, however, that such consent in clause (i) and confirmation in clause (ii) above is not required for Interest Rate Management Agreements. The City may secure its obligations under a future Credit Agreement by a lien on Pledged Revenues if such lien is on parity with or subordinate to the lien securing the Parity Bonds.

(C) If the City issues Variable Rate Obligations, it shall use the following procedures for purposes of determining the maximum and the average annual Debt Service Requirements of Variable Rate Obligations:

(i) At the sole discretion of the City, such Variable Rate Obligation shall be deemed to bear interest at one of the following rates: (x) an interest rate equal to the average rate borne by such obligations (or by comparable debt in the event that such obligations have not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation; (y) if the City has entered into a related Credit Agreement in the nature of an a Interest Rate Management Agreement, the rate payable by the City under such Credit Agreement; or (z) an interest rate equal to the 30 Year Tax-Exempt Revenue Bond Index rate as published in The Bond Buyer on any date selected by the City within 30 days prior to the date of calculation. If such index is no longer published in The Bond Buyer, an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be selected by the City and used for this purpose.

(ii) If the City has entered into a Credit Agreement in connection with an issue of obligations payable from and secured by Pledged Revenues and if clause (y) of paragraph (C)(i) above does not apply, (x) payments due under the Credit Agreement, from either the City or the other party to the Credit Agreement, shall be included in such calculation except to the extent that the payments are already taken into account in the debt service calculation, (y) any payments that would otherwise be included under the debt service calculation which are to be replaced by payments under a Credit Agreement from either the City or the other party to the Credit Agreement shall be excluded from such calculation, and (z) payments due under a Credit Agreement that are paid at a variable rate shall be deemed to be made at a fixed rate determined in a manner consistent with clause (x) of paragraph (C)(i) above. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

(D) If the City has entered into a Credit Agreement to discharge or purchase any of its obligations payable from or secured by Pledged Revenues under arrangements whereby the City's obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase is payable over more than one year from the advance under the Credit Agreement, then the portion of the obligations committed to be discharged or purchased pursuant to the Credit Agreement shall be excluded from any calculation of debt service requirements, and the principal of and interest requirements that constitute the City's reimbursement obligation shall be added.

(E) In determining the Pledged Hotel Occupancy Tax Revenues available to satisfy the coverage requirements of condition (a) above, the City may take into consideration an increase in the portion of the Pledged Hotel Occupancy Tax Revenues that became effective during the Coverage Period and, for purposes of satisfying the above coverage tests, make a pro forma determination of the Pledged Hotel Occupancy Tax Revenues for the Coverage Period based on such increased portion of the Pledged Hotel Occupancy Tax Revenues being in effect for the entire Coverage Period.

(F) Any Additional Bonds may bear any name or designation provided by the ordinance authorizing their issuance and be issued in such form and manner as may be authorized by law. Furthermore, any such bonds may be secured by any other source of payment lawfully available for such purposes, including a Credit Agreement, financial guaranty insurance policy or similar credit or liquidity support. Any Reimbursement Obligation or obligation under a Credit Agreement may be secured by Pledged Revenues on a basis *pari passu* with the Parity Bonds or Junior Subordinate Lien Bonds.

The Outstanding principal balance on all Prior Lien Bonds as of August 1, 2008 is $73,205,000, with the final maturity payment occurring on November 15, 2029.

THE INITIAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Initial Letter of Credit and the Reimbursement Agreement. The Initial Letter of Credit and the Reimbursement Agreement each contain various provisions, covenants and conditions, certain of which are summarized below. Various words or terms used in the following summary are defined elsewhere in this Official Statement, the Initial Letter of Credit or the Reimbursement Agreement, and reference is made thereto for a full understanding of their import.

General

The Bank and the City have entered into the Reimbursement Agreement dated August 1, 2008 (the "Reimbursement Agreement"). Pursuant to the Reimbursement Agreement, the Bank will issue the Initial Letter of Credit which will constitute the initial Credit Facility and the initial Liquidity Facility. By issuing the Initial Letter of Credit, the Bank is serving in the capacity as both the Credit Facility Provider and the Liquidity Facility Provider for the Bonds pursuant to the Ordinance.

The Paying Agent/Registrar is authorized to make drawings for the payment of principal of and interest on the Bonds (each, a "Credit Drawing") and a drawing for the payment of the purchase price of the Bonds bearing interest at the Weekly Rate that have been tendered and not remarketed (each, a "Liquidity Drawing"), subject to certain conditions set forth in the Initial Letter of Credit and in the Reimbursement Agreement. The Bonds purchased by the Bank ("Bank Bonds") shall bear interest at the rates set forth in the Reimbursement Agreement and shall be repaid as provided therein. All Liquidity Drawings and Credit Drawings shall be made under the Initial Letter of Credit in accordance with its terms. The City has directed the Bank to make payments under the Initial Letter of Credit in the manner provided in the Initial Letter of Credit.

The Initial Letter of Credit will terminate on the earliest of (a) August 14, 2011 (as extended from time to time); (b) the earlier of (i) the date which is 15 days following the date on which the rate on all of the Bonds has been converted to bear interest at a rate other than a Covered Mode (the "Conversion Date"), or (ii) the date on which the Bank honors a drawing under the Initial Letter of Credit on or after the Conversion Date; (c) the date which is 15 days following receipt by the Bank of a certificate from the Paying Agent/Registrar certifying that (i) no Bonds remain Outstanding within the meaning of the Ordinance; (ii) all drawings required to be made under the Ordinance and available under the Initial Letter of Credit have been made and honored; or (iii) a substitute letter of credit has been issued to replace the Initial Letter of Credit; and (d) the date which is 15 days following receipt by the Paying Agent/Registrar of a written notice from the Bank specifying the occurrence of an Event of Default under the Reimbursement Agreement, and directing the Paying Agent/Registrar to cause a mandatory tender of the Bonds pursuant to the terms of the Ordinance.

Upon the Bank's honoring any Liquidity Drawing, the Bank shall be deemed to have purchased the Bank Bonds in respect of which such Drawing is made, and the City shall cause the Paying Agent/Registrar to hold such Bank Bonds for the benefit of the Bank and register such Bank Bonds in the name of the Bank or its nominee, or to otherwise deliver such Bank Bonds as directed by the Bank pursuant to the Ordinance. During such time as the Bank is the owner of any Bonds, the Bank shall have all the rights granted to a Bondholder under the Ordinance and such additional rights as may be granted to the Bank under the Reimbursement Agreement.

Events of Default

The occurrence and continuance of any one or more of the following events shall be an "Event of Default" under the Reimbursement Agreement:

(a) the City fails to pay, or cause to be paid, when due (i) any principal of or interest on any Drawing or any Advance; or (ii) any principal of or interest on any Bonds for any reason other than the failure of the Bank to perform its obligations under the Reimbursement Agreement;

(b) any representation, warranty or statement made by or on behalf of the City in the Reimbursement Agreement or in any Program Document to which the City is a party or in any certificate delivered by the City proves to be untrue in any material respect on the date as of which made or deemed made; or the documents, certificates or statements of the City (including unaudited financial reports, budgets, projections and cash flows of the City) furnished to the Bank by or on behalf of the City in connection with the transactions contemplated by the Reimbursement Agreement, when taken as a whole, are materially inaccurate in light of the circumstances under which they were made and as of the date on which they were made;

(c) the City fails to perform or observe certain terms, covenants or agreements contained in the Reimbursement Agreement and such failure is not cured by the specific grace period, if any, set forth in the Reimbursement Agreement;

(d) the City (i) defaults on any payment of any principal, premium, or interest on any of the City's long-term indebtedness in excess of $5,000,000 (other than the Bonds, the Drawings or the Advances), beyond the period of grace, if any, provided in the instrument or agreement under which such long-term indebtedness was created; or (ii) defaults in the observance or performance of any agreement or condition relating to any long-term indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such long-term indebtedness (or a trustee or agent on behalf of such holder or holders) to cause (determined without regard to whether any notice is required), any such long term indebtedness to become due prior to its stated maturity;

(e) (i) a court or other governmental authority with jurisdiction to rule on the validity of the Reimbursement Agreement, the Ordinance or any other Program Document to which the City is a party shall find, announce or rule that (A) any material provision of the Reimbursement Agreement and any other Program Document to which the City is a party; or (B) any provision of the Ordinance relating to the security for the Bonds or the Obligations, the City's ability to pay the Obligations or perform its obligations hereunder or the rights and remedies of the Bank, is not a valid and binding agreement of the City; or (ii) the City contests the validity or enforceability of the Reimbursement Agreement, any other Program Document to which the City is a party or any provision of the Ordinance relating to the security for the Bonds or the Obligations, the City's ability to pay the Obligations or perform its obligations hereunder or the rights and remedies of the Bank, or shall seek an adjudication that the Reimbursement Agreement, any other Program Document to which the City is a party or any provision of the Ordinance relating to the security for the Bonds or the Obligations, the City's ability to pay the Obligations or perform its obligations hereunder or the rights and remedies of the Bank, is not valid and binding on the City;

(f) any provision of the Ordinance relating to the security for the Bonds or the Obligations, the City's ability to pay the Obligations or perform its obligations hereunder or the rights and remedies of the Bank, or any Program Document to which the City is a party, except for any Remarketing Agreement which has been terminated due to a substitution of the Remarketing Agent, or any material provision thereof shall cease to be in full force or effect, or the City or any Person acting by or on behalf of the City shall deny or disaffirm the City's obligations under the Ordinance or any other Program Document to which the City is a party;

(g) a final judgment or order for the payment of money in excess of $5,000,000 (in excess of the coverage limits of any applicable insurance therefore) has been rendered against the City and such judgment or order shall not have been satisfied, stayed, vacated, discharged or bonded pending appeal within a period of thirty (30) days from the date on which it was first so rendered;

(h) (i) a debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any obligation secured by a lien, charge or encumbrance upon the Pledged Revenues; (ii) under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, the City seeks to have an order for relief entered with respect to it or seeking to adjudicate it insolvent or bankrupt or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts; (iii) the City seeks appointment of a receiver, trustee, custodian or other similar official for itself or for any substantial part of the City's property, or the City shall make a general assignment for the benefit of its creditors; (iv) there shall be commenced against the City any case, proceeding or other action of a nature referred to in clause (ii) above and the same shall remain undismissed; (v) there shall be commenced against the City any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distrait or similar process against all or any substantial part of its property which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal, within 60 days from the entry thereof; (vi) the City takes action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), (iii), (iv) or (v) above; or (vii) the City is generally unable to, or admits in writing its inability to, pay its debts as they become due;

(i) any of Moody's, Fitch or S&P has downgraded its long-term unenhanced rating of any debt of the City secured by a lien on and pledge of the Pledged Revenues to below "Baa3" (or its equivalent), "BBB-" (or its equivalent) or "BBB-" (or its equivalent), respectively, or suspended or withdrawn its rating of the same; or

(j) an event of default under the Ordinance shall have occurred.

Remedies if Event of Default Occurs

Upon the occurrence of any Event of Default the Bank may exercise any one or more of the following rights and remedies in addition to any other remedies in the Reimbursement Agreement or by law provided:

(a) by written notice to the City require that the City immediately prepay to the Bank in immediately available funds an amount equal to the Available Amount (such amount to be held by the Bank as collateral security for the Obligations); provided, however, that in the case of an Event of Default described above in clause (h) of the Events of Default section above, such prepayment of an amount equal to the Available Amount shall automatically become immediately due and payable without any notice (unless the coming due of such Obligations is waived by the Bank in writing);

(b) by notice to the City, declare all Obligations to be, and such amounts thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City; provided that upon the occurrence of an Event of Default described above in clause (h) such acceleration will automatically occur (unless such automatic acceleration is waived by the Bank in writing);

(c) give notice of the occurrence of any Event of Default to the Paying Agent/Registrar directing the Paying Agent/Registrar to cause a mandatory tender of the Bonds pursuant to the terms of the Ordinance, thereby causing the Initial Letter of Credit to expire 15 days thereafter;

(d) pursue any rights and remedies it may have under the Program Documents; or

(e) pursue any other action available at law or in equity.

Alternate Liquidity Facility

In the Ordinance, the City is required while the Bonds are in the Weekly Mode, to maintain in effect a Liquidity Facility meeting the requirements set forth therein. The City is required to obtain an Alternate Liquidity Facility to replace the Liquidity Facility (which, at the time of issuance of the Bonds, is the Initial Letter of Credit) or cause the Bonds to be converted to bear interest at interest rate mode other than the Weekly Mode in the event that (i) the City terminates the Liquidity Facility pursuant to the terms thereof or (ii) the Bank furnishes a termination notice to the Tender Agent.

Any Alternate Liquidity Facility must require, as a condition to the effectiveness of the Alternate Liquidity Facility, that the Alternate Liquidity Facility will provide funds to the extent necessary, in addition to other funds available, on the date the Alternate Liquidity Facility becomes effective, for the purchase of all Bank Bonds at par plus interest (at the Bank Rate) through the date purchased. On such date any and all amounts owed to the Bank shall be payable in full to the Bank.

If, at any time, the City provides for an Alternate Liquidity Facility by delivering to the Paying Agent/Registrar (1) an Alternate Liquidity Facility in substitution for the Liquidity Facility with respect to Bonds of a subseries then in effect (which, at the time of issuance of the Bonds, is the Initial Letter of Credit), and (2) a Favorable Opinion of Bond Counsel, then the Paying Agent/Registrar is required to accept such Alternate Liquidity Facility and surrender the Liquidity Facility then in effect to the Liquidity Facility Provider on the Substitution Date, but only if all draws in connection with the mandatory tender occurring on such Substitution Date have been honored in full.

The Paying Agent/Registrar will provide notice of such proposed substitution by United States mail, first-class postage prepaid, to the Holders of the Bonds no less than fifteen (15) days prior to the proposed Substitution Date.

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DEBT SERVICE REQUIREMENTS*

Date	Total Prior Lien 4.5 Cent HOT Outstanding Series 2004 Debt Service	Series 1999A Waller Creek Debt Service	The Bonds (1)	Total Debt Service Payable From 4.5 & 2.0 Cent Revenues
9/30/2009	$ 5,574,438	$ 1,760,400	$ 4,422,890	$ 6,183,290
9/30/2010	5,571,250	1,761,650	7,307,161	9,068,811
9/30/2011	5,572,000	1,761,245	8,269,285	10,030,530
9/30/2012	5,573,375	1,763,888	8,266,523	10,030,410
9/30/2013	5,571,500	1,764,418	8,263,912	10,028,329
9/30/2014	5,570,125	1,767,488	8,261,290	10,028,777
9/30/2015	5,568,750	1,768,113	8,243,900	10,012,013
9/30/2016	5,576,625	1,766,638	8,246,120	10,012,758
9/30/2017	5,573,250	1,767,931	8,218,491	9,986,423
9/30/2018	5,573,250	1,766,863	8,200,743	9,967,606
9/30/2019	5,571,000	1,763,431	8,206,982	9,970,413
9/30/2020	5,570,875	1,767,375	8,207,044	9,974,419
9/30/2021	-	1,762,250	8,210,660	9,972,910
9/30/2022	-	1,762,850	8,212,639	9,975,489
9/30/2023	-	1,760,150	8,169,038	9,929,188
9/30/2024	-	1,754,150	8,183,313	9,937,463
9/30/2025	-	1,754,575	8,194,977	9,949,552
9/30/2026	-	1,751,150	8,213,595	9,964,745
9/30/2027	-	1,743,875	8,209,494	9,953,369
9/30/2028	-	1,742,475	8,226,941	9,969,416
9/30/2029	-	1,736,675	8,245,504	9,982,179
9/30/2030	-	1,731,338	8,274,586	10,005,924

(1) Calculated using synthetic fixed rate of 3.2505% to be paid by the City pursuant to the Serie Interest Rate Management Agreement. See "THE INTEREST RATE MANAGEMENT AGREEMENT."

*As of August 7, 2008.

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Convention Center Fund

Schedule of Revenues, Expenses and Net Income/Change in Net Assets
Year Ended September 30, 2007
With Comparative Totals for Years Ended September 30, 2006, 2005, 2004 and 2003
(In thousands)

	2003	2004	2005	2006	2007
OPERATING REVENUES					
User fees and rentals	$15,040	$10,404	$11,169	$14,692	$14,577
Total Operating Revenues	$15,040	$10,404	$11,169	$14,692	$14,577
OPERATING EXPENSES					
Operating Expenses Before Depreciation	$21,778	$18,192	$19,468	$23,092	$24,114
Depreciation and Amortization	5,270	6,444	6,735	6,800	8,574
Total Operating Expenses	$27,048	$24,636	$26,203	$29,892	$32,688
Operating Income (Loss)	$(12,008)	$(14,232)	$(15,034)	$(15,200)	(18,111)
NONOPERATING REVENUES (EXPENSES)					
Interest and Other Revenues	$ 893	$ 35	$ 613	$ 2,960	$ 4,658
Interest on Revenue Bonds and Other Debt	(14,517)	(13,772)	(13,572)	(11,733)	(11,477)
Interest Capitalized During Construction	1,052	1,390	1,602	938	366
Amortization of Bond Issue Cost	(168)	(175)	(187)	(175)	(140)
Other Nonoperating Expense	60	(15,291)	(657)	(1,063)	(20)
Total Nonoperating Revenues (Expenses)	$(12,680)	$(27,813)	$(12,201)	$ (9,073)	$ (6,613)
Income (Loss) Before Contributions and Transfers	$(24,688)	$(42,045)	$(27,235)	$(24,273)	$(24,724)
Capital Contributions			290	276	
Transfers In	$22,895	$22,712	$26,446	$32,445	$36,697
Transfers Out	(75)	(75)	(75)	(75)	(75)
Net Income (Loss)	N/A	N/A	N/A	N/A	N/A
Change in Net Assets (1)	$ (1,868)	$(19,408)	$ (574)	$ 8,373	$11,898

(1) The City of Austin implemented GASB 34 effective Fiscal Year End 2002.

The revenues reflected in this table do not constitute a portion of the Pledged Revenues securing the Bonds.

DESCRIPTION OF THE BONDS

The Weekly Rates for the Bonds of each subseries will be determined by the applicable Remarketing Agent for such subseries. This Official Statement only describes the Bonds while they bear interest at a Weekly Rate. If the Bonds are converted to a Mode other than a Weekly Mode, such Mode will be described in disclosure materials in connection with such conversion. For descriptions of the method of determination of the interest rates during the Weekly Mode, changes in Mode and certain other terms applicable to the Bonds in the Weekly Mode, see the provisions of this section and APPENDIX C. Each Subseries of Bonds are sometimes referred to herein as "Bonds of a Subseries."

The Bonds will be issued in the aggregate amount of $125,280,000 and will mature on November 15, 2029 (the "Maturity Date"), subject to prior redemption. The Bonds shall bear interest as described below.

General

Authorized Denominations. Initially, the Bonds will be issued in denominations of $100,000 and integral multiples of $5,000 in excess thereof. The authorized denominations are subject to change if the Mode is converted to another Mode.

Calculation of Interest. Interest on the Bonds in the Weekly Mode will be calculated on the basis of a 365-day or 366-day year, as applicable, for the actual number of days elapsed at the applicable Weekly Rate. Initially the Bonds are issued at the Weekly Rate; provided, that from the date of issuance of the Bonds to, but not including August 21, 2008, the Bonds will bear interest at a per annum rate to be established on or about August 13, 2008. No Bond may bear interest at an interest rate higher than the Maximum Rate.

Interest Payment Method. Other than as provided in the Ordinance with respect to the Bonds held in the Book-Entry System, interest on the Bonds shall be paid to the Holders whose names appear in the Security Register at the close of business on the Record Date and shall be paid by the Paying Agent/Registrar (i) by check sent by United States Mail, first class postage prepaid, to the address of the Holder recorded in the Security Register or (ii) by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of the Holder.

Record Date for Interest Payment. The regular record date ("Record Date") for the interest payable on any interest payment date on Bonds bearing interest at a Weekly Rate, means the Business Day immediately preceding the interest payment date.

Interest Payment Dates. Interest on the Bonds in the Weekly Mode is to be paid on the fifteenth day of each month commencing September 15, 2008, in an amount equal to the interest accrued during the Interest Accrual Period preceding the applicable Interest Payment Date. If such date is not a Business Day, such interest will be paid on the next Business Day.

Paying Agent/Registrar. Deutsche Bank Trust Company Americas will serve as Paying Agent/Registrar and may resign at any time and may be replaced in accordance with the Ordinance; provided, however, that any such resignation shall not take effect until a successor is appointed. The address of Deutsche Bank Trust Company Americas for purposes of its duties as Paying Agent/Registrar is 60 Wall Street 27th Floor, New York, New York 10005.

Tender Agent. Deutsche Bank Trust Company Americas will serve as initial Tender Agent for the Bonds and may resign at any time and may be replaced in accordance with the Ordinance; provided, however, that any such resignation shall not take effect until a successor is appointed. All notices and Bonds required to be delivered to the Tender Agent shall be delivered by mail delivery/overnight mail to: Deutsche Bank Trust Company Americas (the "Tender Agent"), 60 Wall Street 27th Floor, New York, New York 10005.

Remarketing Agents. Morgan Keegan & Company, Inc. has been appointed to serve as the initial remarking agent for the Sub-series A Bonds ("Subseries A Remarketing Agent") and Banc of America Securities LLC has been appointed to serve as the initial remarketing agent for the Subseries B Bonds (the "Subseries B Remarketing Agent", and together with the Subseries A Remarketing Agent, the "Remarketing Agents"). The Remarketing Agents may resign or be removed as Remarketing Agent and a successor may be appointed in accordance with the Ordinance as the applicable Remarketing Agent. The offices of Morgan Keegan & Company, Inc. and Banc of America Securities LLC for purpose of its duties as Remarketing Agents are 50 North Front Street, 16th Floor, Memphis, Tennessee 38103 and 214 North Tryon Street, Charlotte, North Carolina 28255, respectively.

Interest Rate Modes; Conversion

The Ordinance permits the City, by complying with certain conditions, to convert the interest rate on the Bonds from a Weekly Rate to another interest rate, including a daily rate, a commercial paper rate, an auction period rate, a term rate, or a rate that is fixed to the maturity of the Bonds.

Determination of Interest Rates in the Weekly Mode

Weekly Mode. The Bonds are being issued in a Weekly Mode for a Weekly Rate Period beginning on the Thursday of each week to and including the Wednesday of the following week (provided, however, that the first Weekly Rate Period for each subseries of the Bonds will be from the Closing Date of such subseries of the Bonds to and including the Wednesday of the following week, and the last Weekly Rate Period will be from and including the Thursday of the week prior to the Mode Change Date to the day next succeeding the Mode Change Date), and such Bonds will bear interest at the rates to be set as described below.

Determination of Interest Rates During the Weekly Mode. The interest rate for the Bonds in the Weekly Mode shall be the rate of interest per annum determined by the applicable Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of such Remarketing Agent under then-existing market conditions, would result in the sale of the Bonds in the Weekly Rate Period at a price equal to the principal amount thereof, plus interest, if any, accrued through the Rate Determination Date. During the Weekly Mode, the applicable Remarketing Agent shall establish the Weekly Rate for each subseries and shall make such Weekly Rate available for each other Notice Party by 5:00 P.M. on the Rate Determination Date by Electronic Means.

If (i) a Remarketing Agent fails to determine the interest rate(s) for the Bonds of a subseries, or (ii) the method of determining the interest rate(s) with respect to the Bonds of a subseries is held unenforceable by a court of law of competent jurisdiction, then the Bonds of such subseries will bear interest at the Alternate Rate for subsequent Interest Periods, in each case until the applicable Remarketing Agent again makes such determination or until there is delivered to the City and the Paying Agent/Registrar a Favorable Opinion of Bond Counsel.

Changes in Mode

All or a portion of any subseries of the Bonds in any Mode other than a Fixed Rate Mode may be changed from one Mode at the times and in the manner provided in the Ordinance and described below. Subsequent to such change in Mode, any subseries of the Bonds may again be changed, in whole or in part, to a different Mode at the times and in the manner provided in the Ordinance and described below.

(a) Changes in Modes. All or a portion of each subseries of the Bonds (other than Bonds in the Fixed Rate Mode) may be changed from one Mode to another Mode as follows:

(i) Mode Change Notice; Notice to Owners. No later than 20 days preceding the proposed Mode Change Date, the City (or the Authorized Representative on behalf of the City) shall give written notice to the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (for purposes herein, the "Current Mode") to another Mode (for purposes herein, the "New Mode") specified in such written notice. Notice of the proposed change in Mode shall be given by the Paying Agent/Registrar to the applicable Owners of the Bonds and the Notice Parties not less than 15 days before the Mode Change Date. Such notice shall state: (1) the reason for the mandatory tender for purchase, (2) the Mandatory Purchase Date, (3) the Purchase Price, (4) the place and manner of payment, (5) that the Owner has no right to retain such Bonds, (6) that no further interest will accrue to such Owner from and after the Mandatory Purchase Date, (7) the conditions that have to be satisfied in order for the New Mode to become effective and (8) the consequences that the failure to satisfy any of such conditions would have.

(ii) Determination of Interest Rates. The New Mode shall commence on the Mode Change Date and the interest rate(s) (together, in the case of a change to the commercial paper mode, with the Interest Period(s)) shall be determined by the applicable Remarketing Agent in the manner provided herein and in the Ordinance. In the case of the Bonds being converted to the term rate mode or the auction rate mode, the length of the term rate period or the initial auction period, as the case may be, shall be selected by the Authorized Representative on behalf of the City and the interest rate for the term rate period or the initial auction period, as the case may be, commencing on the Mode Change Date shall be the lowest rate which, in the judgment of the applicable Remarketing Agent or broker-dealer, as the case may be, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the Mode Change Date.

(iii) Serialization and Sinking Fund. Upon conversion of any Bonds to the term rate mode or the Fixed Rate Mode, such Bonds shall be remarketed at par, and shall mature on the same Maturity Date(s) and be subject to the same mandatory sinking fund redemption, if any, and optional redemption provisions as set forth in the Ordinance for any prior Mode; provided, however, that the City may elect to have some of the Bonds be serial bonds and some subject to sinking fund redemption even if such Bonds were not serial bonds prior to such change.

(iv) Conditions Precedent:

(A) The Mode Change Date must be a Business Day.

(B) The following items shall have been delivered to the Paying Agent/Registrar on or prior to the Mode Change Date:

(1)

(2) a Favorable Opinion of Bond Counsel dated the Mode Change Date, unless otherwise set forth in the Ordinance;

(3) if required, unless Tender Agent and Remarketing Agreements are already effective, executed copies of Tender Agent and Remarketing Agreements;

(4) a certificate of an authorized officer of the Tender Agent to the effect that all of the Bonds of a subseries tendered or deemed tendered, unless otherwise redeemed, have been purchased at a price at least equal to the Purchase Price thereof; and

(5) with respect to a change in the Mode to an auction rate mode, an executed copy of an auction agreement and one or more broker dealer agreements.

(b) Failure to Satisfy Conditions Precedent to a Mode Change. If the conditions described above are not satisfied by the Mode Change Date, then the New Mode may not take effect and the Bonds shall remain in the Weekly Mode with interest rates established in accordance with the applicable provisions in the Ordinance on and as of the failed Mode Change Date.

Redemption

Optional Redemption. The Bonds in the Weekly Mode are subject to optional redemption by the City, in whole or in part, on any Business Day, at a redemption price equal to the principal amount thereof, plus accrued interest, if any, from the end of the preceding Interest Period to the Redemption Date.

Mandatory Sinking Fund Redemption. The Bonds shall be redeemed on November 15 of each year listed below on the dates and in the respective principal amounts set forth below, at a price of one hundred percent (100%) of the principal amount of the Bonds or portions thereof called for redemption, plus interest accrued from the most recent Interest Payment Date to the Redemption Date:

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$62,640,000 Term Subseries 2008A Bonds due November 15, 2029

Mandatory Redemption Dates (November 15)	Subseries 2008A Bonds Mandatory Redemption Requirements
2009	$1,665,000
2010	2,210,000
2011	2,285,000
2012	2,360,000
2013	2,440,000
2014	2,510,000
2015	2,595,000
2016	2,665,000
2017	2,750,000
2018	2,840,000
2019	2,940,000
2020	3,035,000
2021	3,140,000
2022	3,225,000
2023	3,335,000
2024	3,455,000
2025	3,580,000
2026	3,700,000
2027	3,830,000
2028	3,965,000
2029 (Maturity)	4,115,000

$62,640,000 Term Subseries 2008B Bonds due November 15, 2029

Mandatory Redemption Dates (November 15)	Subseries 2008B Bonds Mandatory Redemption Requirements
2009	$1,660,000
2010	2,215,000
2011	2,285,000
2012	2,360,000
2013	2,435,000
2014	2,510,000
2015	2,595,000
2016	2,670,000
2017	2,745,000
2018	2,845,000
2019	2,935,000
2020	3,040,000
2021	3,140,000
2022	3,220,000
2023	3,340,000
2024	3,455,000
2025	3,580,000
2026	3,695,000
2027	3,830,000
2028	3,970,000
2029 (Maturity)	4,115,000

The City will receive a credit in respect of its mandatory sinking fund redemption obligations described above for Bonds of each subseries as hereinafter provided, if the City, at its option, (i) purchases and delivers or tenders to the Paying Agent/Registrar for cancellation Bonds of a subseries at least 50 days before a mandatory redemption date, in an aggregate principal amount desired, or (ii) directs the Paying Agent/Registrar to grant a credit for any such Bonds that prior to said date have been redeemed (otherwise than through mandatory sinking fund redemption) and canceled by the Paying Agent/Registrar and not theretofore applied as a credit against any mandatory sinking fund redemption obligation. Each such Bond so purchased and delivered, tendered or redeemed will be credited by the Paying Agent/Registrar at one hundred percent (100%) of the principal amount thereof.

Notice of Redemption. No notice of redemption is required to be given for a redemption occurring on a Mandatory Purchase Date.

Notice of redemption of any Bond, if required, must be given by first-class mail, postage prepaid, not less than 15 days prior to the redemption date, to each Holder of the Bonds to be redeemed in whole or in part, addressed to such Holder at its last address appearing in the Bond Register. Notice having been so given, the Bonds designated for redemption shall on the redemption date specified in such notice become due and payable at the redemption price, and from and after the redemption date (unless there shall be a default in the payment of the redemption price) such Bonds shall cease to bear interest.

If less than all of the Bonds of a particular Stated Maturity are to be redeemed, the particular Bonds to be redeemed shall be selected prior to the redemption date by the Paying Agent/Registrar from the Outstanding Bonds (or, if pursuant to mandatory sinking fund redemption, from all the Bonds not yet due) of such Stated Maturity not previously called for redemption, by such method as the Paying Agent/Registrar shall deem fair and appropriate and that may provide for the selection for redemption of portions (equal to an Authorized Denomination) of the principal of the Bonds of such Stated Maturity of a denomination larger than the minimum Authorized Denomination.

Notwithstanding anything in the Ordinance to the contrary, no notice of redemption is required to be given for a redemption occurring on a Mandatory Purchase Date.

Tenders and Purchases

Optional Tenders. The Owners of the Bonds of a subseries in a Weekly Mode (other than Liquidity Provider Bonds) may elect to have such Bonds (or portions thereof in Authorized Denominations) purchased at a price equal to the Purchase Price upon irrevocable notice submitted by Electronic Means to the Tender Agent and the applicable Remarketing Agent, promptly confirmed in writing to the Tender Agent and the applicable Remarketing Agent at their respective offices set forth in the Ordinance, not later than 4:00 p.m. New York, New York time, on a Business Day not less than seven days before the Purchase Date specified by the Owner.

Mandatory Purchase Upon Expiration Date, Termination Tender Date and Substitution Date. The Bonds are subject to mandatory tender for purchase on: (i) the second Business Day preceding the Expiration Date of a Credit Facility or Liquidity Facility (an "Expiration Tender Date"); (ii) the fifth calendar day (or if such day is not a Business Day, the preceding Business Day) preceding the Termination Date of a Credit Facility or a Liquidity Facility (a "Termination Tender Date"), if the Liquidity Facility permits a draw thereon on the Termination Tender Date; and (iii) the Substitution Date for a Credit Facility or a Liquidity Facility.

The Paying Agent/Registrar will give notice at least 15 days prior to the Expiration Tender Date to the Owners and Notice Parties of the mandatory tender of the Bonds of such subseries on such Expiration Tender Date if it has not received confirmation that the Expiration Date has been extended.

Upon receipt of a written notice from the Credit Facility Provider, the Liquidity Facility Provider or the City that the Credit Facility or the Liquidity Facility, as the case may be, will terminate or the obligation of the Credit Facility Provider or Liquidity Facility Provider, as the case may be, to provide a loan thereunder will terminate prior to its Expiration Date, the Paying Agent/Registrar will within one Business Day, after receipt of such written notice, give notice to the Owners and any other Notice Parties of the mandatory tender of the Bonds of such subseries that is to occur on such Termination Tender Date if it has not theretofore received from the Credit Facility Provider, the Liquidity Facility Provider or the City, as the case may be, a notice to the Owners stating that the event which resulted in the Credit Facility Provider, the Liquidity Facility Provider or the City giving a notice of the Termination Date has been cured and that the Credit Facility Provider, the Liquidity Facility Provider or the City has rescinded its election to terminate the

Credit Facility or Liquidity Facility, as the case may be. Such notice will be given by Electronic Means capable of creating a written notice. Any notice given substantially as provided is conclusively presumed to have been duly given, whether or not actually received by each Owner.

The Paying Agent/Registrar will, at least 15 days prior to any Substitution Date with respect to a Liquidity Facility relating to any Bonds, give notice of the mandatory tender of such Bonds that is to occur on such Substitution Date to the Owners and the Notice Parties.

The Paying Agent/Registrar will, at least 15 days prior to any Mode Change Date or any Purchase Date (other than a Purchase Date for Bonds for which an Owner has given irrevocable notice of optional tender) give notice to the Owners and the Notice Parties of the mandatory tender for purchase of such Bonds that is to occur on such date.

Any notice to Owners mailed or given is conclusively presumed to have been duly given, whether or not the Owner of any Bond receives the notice, and the failure of such Owner to receive any such notice will not affect the validity of the action described in such notice.

<u>Remarketing of the Bonds.</u>

(a) <u>Remarketing of the Bonds.</u> Each Remarketing Agent shall offer for sale at par and use its best efforts to find purchasers for:

(i) all the Bonds of the subseries or portions thereof as to which notice of optional tender pursuant to the Ordinance has been given; and

(ii) all the Bonds of the subseries required to be tendered for purchase.

To the extent a Liquidity Facility is in effect, no Bonds of a subseries supported by such Liquidity Facility may be remarketed to the City nor may any Liquidity Provider Bonds be remarketed unless the Liquidity Facility has been or will be, immediately upon such remarketing, reinstated by the amount of the reduction that occurred when such Bonds became Liquidity Provider Bonds.

(b) Notice of Remarketing; Registration Instructions; New Bonds. On each date on which a Bond is to be purchased:

(i) the applicable Remarketing Agent shall (A) notify the City, the Paying Agent/Registrar and the Tender Agent by Electronic Means by 9:30 a.m. New York, New York time, of the principal amount of tendered Bonds that were not successfully remarketed, and (B) confirm by Electronic Means to the Paying Agent/Registrar and the Tender Agent the transfer of the Purchase Price of remarketed Bonds to the Tender Agent in immediately available funds at or before 9:45 a.m. New York, New York time, such confirmation to include the pertinent Fed Wire reference number;

(ii) the applicable Remarketing Agent shall notify the Tender Agent by Electronic Means not later than 12:45 p.m. New York, New York time, on the Purchase Date or Mandatory Purchase Date of such information as may be necessary to register and deliver Bonds remarketed; and

(iii) if the Bonds are no longer in the Book-Entry System, the Tender Agent will authenticate new Bonds for the respective purchasers thereof which shall be available for pick-up by the Remarketing Agent not later than 2:30 p.m. New York, New York time on the Purchase Date or Mandatory Purchase Date.

(c) Draw on Liquidity Facility. If a Liquidity Facility is in effect, on each date on which a Bond is to be purchased, if the applicable Remarketing Agent has given notice that it has been unable to remarket any of the Bonds of a subseries, the Paying Agent/Registrar (or the Tender Agent acting on its behalf) will draw on the Liquidity Facility by 10:30 a.m. New York, New York time, in an amount equal to the Purchase Price of all such Bonds tendered or deemed tendered less the aggregate amount of remarketing proceeds.

(d) Source of Funds for Purchase of the Bonds. By the close of business on the date on which a Bond is to be purchased, and except as set forth herein and in the Ordinance, the Tender Agent shall purchase tendered Bonds from the tendering Owners at the applicable Purchase Price. Funds for the payment of such

Purchase Price shall be derived solely from the following sources in the order of priority indicated and neither the Tender Agent nor the Remarketing Agent shall be obligated to provide funds from any other source:

(i) immediately available funds on deposit in the Remarketing Proceeds Account; and

(ii) immediately available funds on deposit in the Liquidity Facility Purchase Account.

(e) Delivery of the Bonds. On each date on which a Bond is to be purchased, such Bond shall be delivered as follows:

(i) Bonds sold by a Remarketing Agent shall be delivered by such Remarketing Agent to the purchasers of such Bonds by 3:30 P.M.; and

(ii) Bonds purchased by the Tender Agent shall be registered in the name of the Liquidity Provider or its nominee (which may be DTC) on or before the close of business on the Mandatory Purchase Date.

Book-Entry Tenders

(a) Notwithstanding any other provision herein to the contrary, all tenders for purchase during any period in which the Bonds are registered in the name of Cede & Co. (or the nominee of any successor to DTC) shall be subject to the terms and conditions set forth in the Blanket Issuer Letter of Representation and to any regulations promulgated by DTC (or any successor DTC). For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Holders of Bonds may be exercised only by DTC by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a Direct Participant or DTC, or an Indirect Participant of DTC acting through a Director Participant of DTC, to exercise a tender option right in respect of Bonds or portions thereof in an amount equal to all or a portion of such Beneficial Owner's beneficial ownership interest therein shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant. For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer on the applicable Purchase Date of a book-entry credit to the account of the Tender Agent of a beneficial interest in such Bonds.

(b) Notwithstanding anything expressed or implied herein to the contrary, so long as the Book-Entry System for the Bonds is maintained by the City:

(i) there shall be no requirement of physical delivery to or by the Tender Agent or any Remarketing Agent of:

(A) any Bonds subject to mandatory or optional purchase as a condition to the payment of the Purchase Price therefor;

(B) any Bonds that have become Liquidity Provider Bonds; or

(C) any remarketing proceeds of such Bonds or Liquidity Provider Bonds; and

(ii) except as provided in (iii) below, neither the Tender Agent nor the Paying Agent shall have any responsibility for paying the Purchase Price of any tendered Bond or for remitting remarketing proceeds to any person; and

(iii) the Tender Agent's sole responsibilities in connection with the purchase and remarketing of a tendered Bond shall be to:

(A) draw upon the Liquidity Facility in the event a Remarketing Agent notifies the Tender Agent as provided herein that such Bond of a subseries has not been remarketed on or before the

Purchase Date therefor, which draw shall be in an amount equal to the difference between such Purchase Price and any remarketing proceeds received by such Remarketing Agent in connection with a partial remarketing of such Bonds, and to remit the amount so drawn to or upon the order of DTC for the benefit of the tendering Beneficial Owners; and

(B) remit any proceeds derived from the remarketing of a Liquidity Provider Bond to the Liquidity Provider.

Disclosure Concerning Tender Process and Sales of Adjustable Rate Bonds by Remarketing Agents

Conditions for Suspension, Resignation or Termination of Remarketing Efforts.

Each Remarketing Agent may suspend its remarketing efforts upon receipt of notice of the occurrence of an event of default under the Bonds, the Ordinance, a Credit Facility or a Liquidity Facility, or upon a wrongful dishonor of a Credit Facility or a Liquidity Facility or other default of a Credit Facility Provider or a Liquidity Facility Provider.

In addition, a Remarketing Agent may at any time resign and be discharged of the duties and obligations created by this Remarketing Agreement by giving at least thirty (30) days written notice to the City, the Paying Agent/Registrar, the Tender Agent, the Credit Facility Provider and the Liquidity Facility Provider; provided a successor remarketing agent has been appointed. If no successor is appointed prior to the expiration of such thirty (30) day period, such resignation will take effect on the earlier of the sixtieth (60th) day following the date of such notice or the effective date of the appointment of a successor; provided that a Remarketing Agent may immediately cease to offer and sell the Bonds if the City ceases to pay such Remarketing Agent's fees, when due, or if a Remarketing Agent determines, in its reasonable judgment, that its ability to remarket the Bonds has been or will be adversely affected as a result of the occurrence of any of the following events, which suspension will continue so long as, in such Remarketing Agent's reasonable judgment, such event continues to adversely affect such Remarketing Agent's ability to remarket the Bonds: (a) legislation shall be enacted or be proposed or actively considered for enactment, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation, or statement by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that (i) the Bonds, or any comparable securities of the City or any obligations of the general character of the Bonds, are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, as amended and as then in effect or (ii) the offer and sale of the Bonds, or any comparable securities of the City or any obligations of the general character of the Bonds would be in violation of any provision of applicable securities laws; (b) there shall have been any material adverse change in the affairs of the City; (c) a general banking moratorium shall have been declared by federal or state authorities having jurisdiction or a material disruption in commercial banking or securities settlement or clearance services shall have occurred; (d) there shall have occurred (i) an outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war occurs or (ii) the occurrence of any other calamity or crisis or any change in the financial, political, or economic conditions in the United States or elsewhere; (e) a downgrade or withdrawal of the rating of the Bonds shall have occurred or there shall have occurred or notice shall have been given of any intended downgrading or published negative change in outlook in the rating accorded to any of the City's debt obligations that are secured in a like manner as the Bonds (including the Bonds); (f) there shall be established any new or additional restriction on transactions in securities materially affecting trading in or the free market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a change to the net capital requirements of, underwriters established by the New York Stock Exchange, the Securities and Exchange Commission or any other governmental, administrative, executive or regulatory authority or by any national securities exchange; (g) a stop order, release, regulation, or no-action letter by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall have been issued or made to the effect that the remarketing of the Bonds, including all the underlying obligations as contemplated hereby or by any disclosure document, is or would be in violation of any provision of applicable securities laws; (h) there shall be in force a general suspension of trading on the New York Stock Exchange, or minimum or maximum prices for trading shall have been fixed and be in force, or maximum ranges for prices for securities shall have been required and be in force on the New York Stock Exchange, whether by virtue of a determination by that exchange or by an order of the Securities and Exchange Commission or any other governmental authority having jurisdiction; (i) there shall exist any event or circumstance that in the Remarketing Agent's reasonable judgment either makes untrue or incorrect in any material respect any statement or information in any disclosure document or is not reflected in any disclosure document but should be reflected therein in order to make any statement of material fact therein not misleading in any material respect; (j) such Remarketing Agent determines, in its sole discretion upon consultation with counsel, that either (i) a disclosure document is required by applicable law to be distributed to prospective purchasers and that such document is not available or, if available, is not reasonably satisfactory to such Remarketing Agent in form or substance or (ii) a continuing disclosure undertaking is required by applicable law and that such undertaking is either not then in effect or is not reasonably satisfactory to such Remarketing Agent in form or substance; (k) legislation shall have been enacted or introduced by the Congress of the United States or the legislature of the State or legislation shall have been reported out of committee of either body or be pending in committee of either body, or a decision shall have been rendered by a court of the United States or the State or the Tax Court of the United States, or a ruling, resolution, regulation, or temporary regulation, release, or announcement shall have been made or shall have been proposed to be made by the Treasury Department of the United States or the Internal Revenue Service, or other federal or State authority, with respect to federal or State taxation upon revenues or other income of the general character of that to be derived by the City from its operations, or upon interest received on obligations of the general character of the Bonds that, in the applicable Remarketing Agent's reasonable judgment, materially adversely affects the market for the Bonds, or the market price generally of obligations of the general character of the Bonds; (l) such Remarketing Agent receives an opinion of Bond Counsel to the City that substantial grounds exist upon which interest on the Bonds is not excludable from gross income for federal income tax purposes; or (m) an insolvency event, including, without limitation, the bankruptcy or default of any other issuer of or obligor on obligations of the general character of the Bonds, shall have occurred.

Remarketing Agents Paid by the City. The Remarketing Agents' responsibilities include, but are not limited to, determining the interest rate from time to time and remarketing the applicable subseries of Bonds that are optionally or mandatorily tendered to it by the beneficial owners thereof (subject, in each case, to the terms of the Remarketing Agreement). The Remarketing Agents are appointed by the City and are paid by the City for their services. As a result, the interests of the Remarketing Agents may differ from those of beneficial owners and potential purchasers of Bonds.

Determination of Interest Rates by the Remarketing Agents. On each Rate Determination Date, the Remarketing Agents are required to determine the interest rate that will be effective with respect to their subseries of Bonds on the Rate Determination Date. That rate is required by the Ordinance to be the lowest rate necessary in the judgment of each Remarketing Agent to remarket such subseries of Bonds at par, plus accrued interest on the Rate Determination Date.

Tenders to the Remarketing Agents or the Tender Agent. As described under "Book-Entry Tenders" and "BOOK-ENTRY-ONLY SYSTEM," while the Bonds are in book-entry form, a beneficial owner may give notice to elect to tender its Bonds, through its Participant, to the applicable Remarketing Agent or the Tender Agent, and may effect delivery of such Bonds by causing the Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the applicable Remarketing Agent or the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory tender may be deemed satisfied when the ownership rights in the Bonds are transferred by Participants on DTC's records and followed by a book entry credit of tendered Bonds to the applicable Remarketing Agent's or the Tender Agent's DTC account. Tendering Bondholders will receive par, plus accrued interest, if any, after the required number of days' notice have elapsed. For example, while the Bonds bear interest at the Weekly Rate, tendering Bondholders will receive par, plus accrued interest on the fifth Business Day following their tender to the applicable Remarketing Agent or the Tender Agent. Tendering Bondholders will be paid with the proceeds of the remarketing of the Bonds and, to the extent those proceeds are insufficient, from the proceeds of draws on the Letter of Credit by the Paying Agent/Registrar or Tender Agent, as applicable.

The Remarketing Agents Routinely Purchase Bonds for their Own Account. The Remarketing Agents act as remarketing agents for a variety of variable rate demand obligations issued by many issuers and, in their sole discretion, routinely purchase such obligations for their own account. The Remarketing Agents are permitted, but not obligated, to purchase tendered Bonds for their own account and, in their sole discretion, routinely acquire such tendered Bonds in order to achieve a successful remarketing of each subseries of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agents are not obligated to purchase the Bonds, and may cease doing so at any time without notice, in which case it may be necessary for the Paying Agent/Registrar to draw on the Letter of Credit to pay tendering Bondholders.

The Remarketing Agents may also make a secondary market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at, above, or below par. No notice period is required for such purchases. However, the Remarketing Agents are not required to make a secondary market in the Bonds. Thus, investors who purchase the

Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

The Remarketing Agents may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agents may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Prices Other Than Par. Pursuant to the Remarketing Agreements, on each Rate Determination Date, the Remarketing Agents are required to determine the interest rate that will be effective with respect to the Bonds on the Rate Determination Date. That rate is required by the Ordinance to be the lowest rate necessary in the judgment of each Remarketing Agent to remarket such subseries of the Bonds at par, plus accrued interest on the Rate Determination Date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agents are willing to purchase Bonds for their own account). There may or may not be Bonds tendered and remarketed on a Rate Determination Date, and the Remarketing Agents may or may not be able to remarket any Bonds tendered for purchase on such date at par. The Remarketing Agents are not obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the Bonds at the remarketing price. If the Remarketing Agents own Bonds for their own account, in their sole discretion, they may sell those Bonds at fair market value, which may be at prices above or below par only on days other than Rate Determination Dates after the interest rate for the succeeding Interest Period has been set. The Remarketing Agents may not agree in advance of the Rate Determination Date to sell the Bonds to a customer at a price below par.

Under certain circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agents may be removed or have the ability to resign or cease their remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreements.

Ownership

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name any Bond is registered as the absolute Owner of such Bond for the purpose of making and receiving payment of the principal thereof and premium, if any, thereon, and for the further purpose of making and receiving payment of the interest thereon, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Bond in accordance with the Ordinance shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

Defeasance

If the City pays or causes to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner described herein, then the pledge of the Pledged Revenues under the Ordinance and all other obligations of the City to the Holders will thereupon cease, terminate, and become void and be discharged and satisfied.

Bonds or any principal amount(s) thereof shall be deemed to have been paid within the meaning and with the effect described above when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (ii) Government Obligations shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Obligations have been certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The City has covenanted that no deposit of moneys or Government Obligations will be made as described herein and no use made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code, or the Regulations.

Any money so deposited with the Paying Agent/Registrar, or an authorized escrow agent, and all income from Government Obligations held in trust by the Paying Agent/Registrar or an authorized escrow agent, described herein which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such moneys have been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date, of the Bonds such moneys were deposited and are held in trust to pay shall, upon the request of the City, be remitted to the City against a written receipt therefor. Notwithstanding the foregoing, any remittance of funds from the Paying Agent/Registrar to the City shall be subject to any applicable unclaimed property laws of the State of Texas.

All money or Government Obligations set aside and held in trust pursuant to the provisions herein shall be used at the first practicable date to pay the Purchase Price or Redemption Price, as applicable, of the Bonds being deemed paid, retired and no longer outstanding as contemplated in the first paragraph hereof.

No Bonds of a subseries in the Weekly Mode may be defeased without prior written consent of the Credit Facility Provider and written confirmation from each Rating Agency then rating such Bonds to the effect that the deposit made pursuant to the Ordinance will not, by itself, result in a reduction or withdrawal of the short-term or long-term rating of such Bonds below the rating category of such Rating Agency then in effect with respect to such Bonds.

Amendment of Ordinance with the Consent of the Bondholders

The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of the Ordinance but, if such amendment is not of the character described in "Amendment of the Ordinance Without the Consent of Bondholders" below, only with the consent of the Holders of not less than 51% of the aggregate unpaid principal amount of the Parity Bonds then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing described herein shall permit (a) an extension of the maturity of the principal of or interest on any Bond issued under the Ordinance, or (b) a reduction in the principal amount of any Bond or the rate of interest on any Bond or redemption price therefor, or (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such amendment.

If and to the extent required by a Credit Facility, Liquidity Facility, an Interest Rate Management Agreement, another Credit Agreement or other provision of the Ordinance, the City is required to first obtain the consent of the Credit Provider, any Liquidity Provider and the Interest Rate Management Counterparty to any such amendment.

Any consent described in the preceding two paragraphs will be deemed given:

(a) By all Holders of Outstanding Bonds if a Credit Facility is in effect, the Credit Provider is not in default thereunder and the Credit Provider has given its written consent to the amendments in writing,

(b) By any Holder in any number of concurrent writings of similar tenor, signed by such Holder or his duly authorized attorney in the manner set forth in the Ordinance; and

(c) Under such other circumstances described in the Ordinance, none of which may occur prior to a mandatory tender of all Bonds.

Amendment of Ordinance without the Consent of the Bondholders

The City may, without the consent of or notice to any of the Holders of the Bonds, amend the Ordinance for any one or more of the following purposes:

(a) to cure any ambiguity, defect, omission or inconsistent provision in the Ordinance or in the Bonds; or to comply with any applicable provision of law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Holders of the Bonds;

(b) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Bonds from being includable within the gross income of the owners thereof for federal income tax purposes;

(c) to grant to or confer upon the Holders of the Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders of the Bonds;

(d) to add to the covenants and agreements of the City contained in the Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Ordinance;

(e) to amend any provisions of the Ordinance relating to the issuance of Additional Bonds provided that the City first obtains a Rating Confirmation Notice with respect to such amendment; and

(f) to subject to the lien and pledge of the Ordinance additional Pledged Revenues, provided such amendment does not cause any reduction in any rating assigned to the Bonds by any major municipal securities evaluation service then rating the Bonds;

provided, however, that if and to the extent required by a Credit Facility, Liquidity Facility, an Interest Rate Management Agreement, another Credit Agreement or other provision of the Ordinance, the City is required to first obtain the consent of the Credit Provider, any Liquidity Provider and the Interest Rate Management Counterparty to any such amendment described under this Section.

Transfer, Exchange and Registration

Beneficial ownership of the Bonds registered in the name of The Depository Trust Company, New York, New York ("DTC"), will initially be transferred as described under "BOOK-ENTRY-ONLY SYSTEM."

So long as any Bonds remain Outstanding, the Paying Agent/Registrar will keep the Register at its principal corporate trust office in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar will provide for the registration and transfer of the Bonds in accordance with the terms of the Supplemental Ordinance. A copy of the Register will be maintained at an office of the Paying Agent/ Registrar.

Each Bond will be transferable only upon the presentation and surrender thereof at the principal corporate trust office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in a form satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of any Bond for transfer, the Paying Agent/Registrar is required under the Ordinance to authenticate and deliver in exchange therefor, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and bearing interest at the same rate as the Bond or Bonds so presented and surrendered.

If the Bonds are not in the DTC book-entry only registration system, all Bonds will be exchangeable upon the presentation and surrender thereof at the principal corporate trust office of the Paying Agent/Registrar for Bonds of the same series of the same maturity and interest rate and in any authorized denomination, in an aggregate principal amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange.

Each Bond delivered in accordance with the Ordinance is entitled to the benefits and security of the Ordinance to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The City or the Paying Agent/Registrar may require DTC or any subsequent Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City.

The Paying Agent/Registrar is not required to transfer or exchange any Bond during the 45-day period prior to the date fixed for redemption; provided, however, that such restrictions do not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of any Bond called for redemption in part.

Bondholders Remedies

If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in either the Ordinance, the registered owners may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Ordinance authorizing the issuance of the Bonds, and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the courts, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be finance by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

The City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenue, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, with Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could required that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

THE INTEREST RATE MANAGEMENT AGREEMENT

The City has entered into an Interest Rate Management Agreement, consisting of an ISDA Master Agreement dated as of August 7, 2008, schedule attached hereto and confirmation, dated as of August 7, 2008, all between the City and Morgan Keegan Financial Products, Inc. ("MKFP"), a Replacement Transaction Agent, dated as of August 7, 2008, between the City, MKFP and Duetsche Bank AG, New York Bank ("Duetsche Bank") and a Credit Support Annex, dated as of August 7, 2008, between the City and Duetsche Bank. (collectively, the "Series 2008 Interest Rate Management Agreement") to enable the City to substantially fix its interest obligation on the debt represented by Bonds. Under the Series 2008 Interest Rate Management Agreement, from (1) August 14, 2008 (which coincides with the date of delivery of the Bonds) until November 15, 2009, MKFP is obligated to make payments to the City calculated on a notional amount equal to the scheduled Outstanding principal amount of the Bonds and a variable rate equal to the USD-SIFMA Municipal Swap Index and (2) November 15, 2009, the scheduled maturity date of the Bonds, the MKFP is obligated to make payments to the City calculated on a notional amount equal to the scheduled Outstanding principal amount of the Bonds and a variable rate equal to 67% of the one-month London Interbank Borrowing Rate (LIBOR) for U.S. deposits. The City, under the Series 2008 Interest Rate Management Agreement, is obligated to make payments to MKFP calculated on a notional amount equal to the scheduled outstanding principal amount of the Bonds and a fixed rate of 3.2505% per annum. Payments under each Series 2008 Interest Rate Management Agreement will be made on a net basis (as to that agreement only) on the 15th day of each month, commencing in September 2008.

Arrangements made in respect of the Series 2008 Interest Rate Management Agreement does not alter the City's obligation to pay principal of and interest on the Bonds. The Series 2008 Interest Rate Management Agreement does not provide a source of security or other credit for the Bonds. The City's obligations under the Series 2008 Interest Rate Management Agreement to make scheduled payments are payable on a parity with the City's obligation to pay principal of and interest on the Bonds.

If any party to the Series 2008 Interest Rate Management Agreement commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, the affected Series 2008 Interest Rate Management Agreement may, with certain exceptions, be terminated at the option of the other party. Accordingly, no assurance can be given that the Series 2008 Interest Rate Management Agreement will continue to be in existence. If the Series 2008 Interest Rate Management Agreement is terminated under certain market conditions, the City may owe a termination payment to Duetsche Bank or the City may receive a termination payment from Duetsche Bank. Such termination payment generally would be based on the market value of the affected Series 2008 Interest Rate Management Agreement on the date of termination and could be substantial. In addition, a partial termination of the Series 2008 Interest Rate Management Agreement could occur to the extent that any Bonds are redeemed pursuant to an optional redemption. If such optional redemption occurs, termination payments related to the portion of the Series 2008 Interest Rate Management Agreement to be terminated will be owed by either the City, or Duetsche Bank, depending on market conditions. The obligation of the City to pay a termination payment to Duetsche Bank could result in the City issuing Parity Bonds or Junior Subordinate Lien Bonds to make a termination payment.

BOOK-ENTRY-ONLY SYSTEM

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued in the total aggregate principal amount of each maturity of the Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent or applicable Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's or the applicable Remarketing Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

Subject to DTC's policies and guidelines, the City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

INVESTMENTS

The City invests its available funds in investments authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments

Under Texas law, the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, the "PFIA") that are issued by or through an institution that either has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

Political subdivisions such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

Effective September 1, 2005, the City, as the owner of a municipal electric utility that is engaged in the sale of electric energy to the public, may invest funds held in a "decommissioning trust" (a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation) in any investment authorized by Subtitle B, Title 9, Texas Property Code (commonly referred to as the "Texas Trust Code"). The Texas Trust Code provides that a trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution. See "CUSTOMER RATES – Energy Risk Management".

The City may also contract with an investment management firm registered under the Investment Advisor Act of 1940 (15 U.S.C. Section 80b.1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the City retains ultimate responsibility as fiduciary of its assets.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; and also that address the quality and capability of investment personnel. The policy includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) Texas law. No person may invest City funds without express written authority of the City Council or the Chief Financial Officer.

Additional Provisions

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered representative of firms seeking to sell securities to the City to (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and (7) provide specific investment training for the Chief Financial Officer, Treasurer and Investment Officers.

Current Investments

As of June 1, 2008, the City's investable funds were invested in the following categories:

Type of Investment	Percentage
U.S. Treasuries	11%
U.S. Agencies	51%
Money Market Funds	3%
Local Government Investment Pools	35%

The dollar weighted average maturity for the combined City investment portfolios is 1.17 years. The City prices the portfolios weekly utilizing a market pricing service.

TAX EXEMPTION

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is attached here to as APPENDIX D.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds.

Bond Counsel's opinion will note that no opinion is being expressed on excludability from gross income for federal income tax purposes of any action taken under the Ordinance, which action requires that the City receive an opinion of Bond Counsel to the effect that such action will not adversely affect excludability of the interest on the Bonds from the gross income of the owner thereof federal income tax purposes. Such actions that require an opinion of Bond Counsel include, but are not limited to, converting the interest rate on the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the issuer as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on either series of the Bonds, the City may have different or conflicting interests from the owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City's hotel occupancy taxes of the general type included in the main text of the Official Statement within the numbered tables only and in APPENDIX B. The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year end. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide unaudited financial statements by the required time and audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year is October 1 to September 30. Accordingly, it must provide updated information by March 31 of each year unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs (or the MSRB in the case of material event notices) and the SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, Post Office Box 2177, Austin, Texas 78768-2177, its telephone number is 512/476-6947, and its website address is www.mactexas.com. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the Bonds.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the Outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

During the last five (5) years, the City has compiled in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City did not receive the Comprehensive Audited Financial Report for the fiscal year ended September 30, 2006 (the "CAFR") from its auditors until October 23, 2007. As a result of not receiving the CAFR within 180 days of the end of the City's 2006 Fiscal Year, the City filed unaudited financial statements with the NRMSIRs and the SID, in accordance with its continuing disclosure agreements. On October 24, 2007, the City filed the CAFR with the NRMSIRs and the SID.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received unenhanced ratings of "A2" by Moody's Investors Service, Inc. ("Moody's") and "A-" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). The Bonds will also be rated "Aaa" by Moody's and "AAA" by S&P as a result of the issuance of the Initial Letter of Credit by the Bank and the deposit of Pledged Revenues by the City (see "THE INITIAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT"). Moody's and S&P will also assign the Bonds short-term ratings of "VMIG-1" and "A-1+" based on the obligation of the Bank to purchase Bonds pursuant to the Initial Letter of Credit. See "THE INITIAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT". An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Registration and Qualification of Bonds

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the PFIA requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER RELEVANT INFORMATION – Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from Pledged Revenues and secured by a lien on and pledge of the Pledged Revenues in the manner provided in the Ordinance and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest, on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as APPENDIX D.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, "PLAN OF FINANCING – Refunded Bonds," "SECURITY FOR THE BONDS," (except for information in the last sentence of the first paragraph and the second paragraph of the subcaption "Historical Hotel Occupancy Tax Receipts" and under the subcaptions "Historical Hotel Occupancy Tax Collections", "Top Twenty Hotel Occupancy Tax Payers" and "Historical Hotel Occupancy Data") "DESCRIPTION OF THE BONDS," except for Book-Entry Tenders", "Disclosure Concerning Tender Process and Sales of Adjustable Rate Bonds by Remarketing Agents" and "Bondholders Remedies, "THE INITIAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT – Alternate Liquidity Facility," "THE INTEREST RATE MANAGEMENT AGREEMENT," "TAX EXEMPTION," "CONTINUING DISCLOSURE OF INFORMATION," (except for information under the captioned "Compliance With Prior Undertakings" "OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds," "OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas," and "APPENDIX C" to verify that the information relating to the Bonds and the Ordinance contained under such captions and in APPENDIX C in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the Closing occurring. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP and the Bank by its counsel, Andrews Kurth LLP.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

Financial Advisor

The PFM Group ("PFM" of the "Financial Advisor"), Austin, Texas is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The PFM Group's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. PFM, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

Underwriting

Morgan Keegan & Company, Inc., as the Underwriter of the Subseries 2008A Bonds, has agreed, subject to certain customary conditions to delivery, to purchase the Subseries 2008A Bonds from the City at a price equal to the par amount of the Bonds, less an underwriting discount of $86,830.39.

Banc of America Securities LLC, as the Underwriter of the Subseries 2008B Bonds, has agreed, subject to certain customary conditions to delivery, to purchase the Subseries 2008B Bonds from the City at a price equal to the par amount of the Bonds, less an underwriting discount of $86,558.72.

Each Underwriter will be obligated to purchase all of the Bonds of a subseries if any Bonds of the subseries are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Prior to the issuance of the Bonds, an affiliate of Morgan Keegan & Company, Inc. entered into the Series 2008 Interest Rate Management Agreement with the City that will hedge the interest rate on the bonds. See "THE INTEREST RATE MANAGEMENT AGREEMENT" herein.

Forward - Looking Statements

The statements contained in this Official Statement and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligations to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Miscellaneous Information

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinance also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the offering of the Bonds by the Underwriters.

/s/ Will Wynn
Mayor
City of Austin, Texas

ATTEST:

/s/ Shirley A. Gentry
City Clerk
City of Austin, Texas

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

General Information

The City of Austin, chartered in 1839, has a Council-Manager form of government with a Mayor and six Councilmembers. The Mayor and Councilmembers are elected at large for three-year staggered terms with a maximum of two consecutive terms. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs.

Austin, the capital of Texas, is the fourth largest city in the State (behind Houston, Dallas, and San Antonio), with an estimated population of more than 732,000 in 2007. Over the past ten years, Austin's population has increased by approximately 124,000 residents, or 14.7 percent. Geographically, Austin consists of approximately 297 square miles. The current estimated median household income and per capita income for the Austin-Round Rock Metropolitan Statistical Area (MSA) is $42,263 and $38,243, respectively.

Austin is frequently recognized as a great place to live for all ages, from young to retired: Forbes.com lists Austin as one of the Best Places for Singles because of nightlife, culture and low cost of living, and *AARP The Magazine* names Austin as one of the top four cities to watch as a retirement community.

Austin is also a great place for work, entertainment and healthy living. Moody's Economy.com rates Austin as one of the best places for business in the U.S., and *MovieMaker* magazine names Austin as the Top City in America to live and make movies. Austin offers a wide variety of entertainment, with music as a special element. Known as the "Live Music Capital of the World," Austin has more than 120 live music venues and is host to the annual South by Southwest and Austin City Limits music festivals. Austin's many public parks, exercise facilities and low stress factors lead *Latina Magazine* to rank Austin tenth of the top 25 healthiest cities. MSN.com lists Austin among America's Greenest Cities, based on the City's green energy program and climate protection plan.

The City also offers a broad range of educational opportunities. Austin is a highly educated city, with approximately 43 percent of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 27 percent for the U.S. as a whole. With its seven institutions of higher learning and more than 117,000 students, education is a significant aspect of life in the Austin area. The University of Texas at Austin (UT), the largest public university in the nation, is known as a world-class center of education and research.

Recent Economic Performance

Austin's economic growth continued during 2007, with increased tourism and low unemployment rates. Hotel occupancy rates averaged over 69%, resulting in increased bed tax revenues of approximately 15% from the previous year. Forbes magazine credits a strong economy to the combination of high-tech employers and engineering talent provided by the University of Texas. Since 1998, employment in Austin increased by more than 151,000 jobs. The Bureau of Labor Statistics reports the 2007 Austin MSA employment base at 826,000, a gain of more than 10,000 over 2006. Unemployment continued to remain low, up slightly from 3.3 percent in 2006 to 3.6 percent at the end of 2007.

The State of Texas reported that the state economy grew more slowly in 2007 than during 2006, but still added more jobs than any other state. For the first time since 2001, the Texas unemployment rate dropped below the national average during 2007. According to the Bureau of Labor statistics, Texas ended the year with an unemployment rate of 4.2 percent. The State Comptroller attributes the comparatively better performance of the Texas economy to the U.S. economy to a greater concentration of the strong oil and gas industry and a housing market that has dropped less abruptly than the national average.

The national economy continued to cool during 2007, hampered by subprime mortgage losses, drops in housing sales and construction, and higher fuel costs. The Bureau of Labor Statistics reports the unemployment rate fluctuated between 4.4 and 4.8 percent most of the year, and ended the year at 5 percent. Inflation increases during 2007 were similar at the State and national levels. The Texas Comptroller's *Fiscal Notes* reported the Texas Consumer Price Index

(CPI-U) increased four percent from December 2006 to 2007, with a corresponding increase at the national level of 4.1 percent in December. The Bureau of Labor Statistics cited rising fuel, food and medical care costs as the primary sources of the increases at the national level.

Home sales are an important indicator of the local and national economy. In the Austin market, annual home sales declined, but remained stronger than the national average. Data compiled by the Real Estate Research Center at Texas A&M shows the percent change in Austin sales declined by 7.6 percent, with an ending inventory of 4.2 months. Texas sales show similar decreases, with annual home sales declined 6.1 percent, and an ending inventory of 5.7 months. The total nationwide housing inventory at the end of the year was more than a nine month supply, compared to about half that amount in Austin.

Economic Outlook

For several years, the Austin-area economy has been one of the most rapidly growing in the nation. One of the region's leading economists, Angelos Angelou, forecasts modest job growth for Austin in 2008, with growth in services, trade and government. The area's population is expected to grow by 85,000 over the next two years. The national real estate crunch is likely to have the most significant impact on the local economy. The local building industry has reacted to national concerns, and cut back on housing starts. This cut back, combined with expected growth, should result in a strong demand for rental property.

Southwest Economy, published by the Federal Reserve Bank of Dallas, expects the Texas economy to encounter lower economic growth in 2008, but still perform better than the nation. Texas should experience modest job growth. Businesses will continue to be attracted to Texas due to a relatively low cost of living. To its advantage, Texas is one of the few states that gains from high energy prices.

Long-term financial planning

A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a planning tool in developing the following year's operating budget. In recent years, the City emphasized structural budgeting, which simply means not spending any more in a given year than collected in revenue. Standard and Poor's recognized Austin's sound financial management when the rating agency upgraded the City's general obligation bond rating to "AAA" status in January 2008.

The FY 2007-2008 Proposed Budget identified the most significant cost driver facing the General Fund as public safety staffing policies – maintaining 2.0 police officers per 1,000 population and enhanced task force staffing in the Austin Fire Department, as well as public safety labor contracts. Other cost factors are increased operations and maintenance costs for new or expanded facilities, additional street maintenance and rising personnel costs. The FY 2007-2008 budget authorizes almost $23 million of the budget stabilization reserves to address costs due to growth trends, new investment in core services, replacement of critical equipment and other one-time needs. The Approved Budget projects budget reserves of $70 million at the end of 2008.

Austin includes several enterprise activities. A key enterprise is Austin Energy, which is the ninth largest U.S. public power utility in customers served, according to the latest available data from the American Public Power Association. The utility has over $1.1 billion in annual revenues, nearly 389,000 retail metered customers and almost 11,000 miles of overhead and underground distribution lines. The utility has a well rounded generation portfolio with adequate capacity to meet native load. The budget includes funding for 100 megawatts of additional peaking generation capacity at Sand Hill which is expected to be online in 2009.

The City enterprise activities also include the Austin Water Utility, which provides water and wastewater services. The FY 2007-2008 operating expense budget of $394.7 million provides for increased funding for water conservation, environmental protection, and repair contracts to improve response times for leaks and breaks. The five-year forecast projects an average growth in base revenue of two percent annually. The Utility projects debt service to increase over the next five years to fund capital improvements estimated at $1.3 billion.

Other enterprise funds and their FY 2007-2008 expense budgets include Aviation ($75.6 million), Convention Center ($54.9 million) and Solid Waste Services ($57.8 million).

Major Initiatives
The City of Austin's vision of being the most livable city in the country means that Austin is a place where all residents participate in its opportunities, its vibrancy and its richness of culture and diversity.

Austin's City Council began defining its policy priorities in the early 1990s. In April 2007, the Council adopted four priorities:

— Rich social and cultural community
— Healthy, safe city
— Vibrant urban fabric
— Sustainable economic development and financial health

These Council priorities serve as an organizing framework for how the City does business, providing the continuity and direction needed to develop business plans that build upon each other, year after year, to help achieve longer-ranging goals. The current status of a few key initiatives are described below:

Waller Creek Tunnel Project. This project is a stormwater bypass tunnel that will include the stretch of Waller Creek from Waterloo Park to Lady Bird Lake. The project will take more than one million square feet of prime downtown land out of the floodplain and allow denser development. In March 2007, the Travis County Commissioners Court voted to join the City of Austin in the creation of a Tax Increment Financing District to fund the construction of the tunnel. The project has received the endorsement of the community, as well as key stakeholder groups. Estimated project cost at June 2007 was $127,547,000 plus operations and maintenance costs. The four-year construction process is expected to begin in August 2010.

Zero Waste Master Plan. In January 2006, the City Council adopted guiding principles for the delivery of solid waste services. The Solid Waste Services Department, working with the Solid Waste Advisory Commission and other area solid waste representatives, is charged with developing a 50-year waste management plan to address landfill availability and waste reduction issues. In November 2007, the City Council approved a consultant contract to develop a zero waste plan for the City of Austin and surrounding regions, including Travis, Williamson, Bastrop, Caldwell, Hays, Blanco and Burnet counties. The consultant will take into consideration current and planned public and private solid waste infrastructure, as well as the City of Austin's Climate Protection Program. Recommendations developed through this process will be integral to achieve the U.N. Urban Environmental Accord's goal to reduce by 20% the per capita solid waste disposal to landfills by 2012 and zero waste by 2040.

Redevelopment of Green Water Treatment Plant. The Thomas C. Green Water Treatment Plant, the City's oldest water treatment plant, is reaching the end of its useful life. Located on the west edge of Downtown, a former warehouse and industrial district, it is now surrounded by a rapidly developing mixed-use urban neighborhood. The site's location between the City Hall / Second Street Retail District and the Seaholm Redevelopment makes it a strategic opportunity in the City's Downtown Redevelopment initiatives.

Austin Climate Protection Plan. Austin City Council passed the Austin Climate Protection Plan in February 2007. The plan directs staff to take the following actions to make Austin a carbon neutral community by the year 2020:

— City of Austin facilities, fleets and operations will be carbon-neutral by 2020.
— Implement the most aggressive utility greenhouse gas reduction plan in the nation through dramatic increases in conservation, efficiency and renewable programs. Require carbon neutrality on any new generation. Establish a CO^2 cap and a reduction plan for all utility emissions.
— Austin building codes for both residential and commercial properties will be the most energy efficient in the nation.
— Develop a comprehensive plan to reduce greenhouse gas emissions from sources community-wide.
— Provide mechanisms for all businesses and individuals to reduce their carbon footprint to zero.

Status as of June 2007, includes the following:

— Austin Energy to provide renewable energy for all city facilities by 2009.
— Austin Energy's baseline greenhouse gas inventory is complete and certified by California Climate Action Registry; Austin Water Utility is working on a similar baseline inventory.

— The City's Fleet Services Department is developing a baseline inventory of all city vehicles and continues to purchase alternative fueled or hybrid vehicles.

Affordable Housing. The City manages housing gap financing programs and direct housing services programs under the framework of the Housing Continuum and S.M.A.R.T Housing™. The City Council has also taken action to enable the creation of new and additional tools to achieve deeper affordable housing levels with the following major initiatives:

— Affordable Housing Incentives Task Force. Council appointed this task force to explore ways to provide incentives for the construction of affordable housing in Austin. In May 2007, the task force reported to Council, followed by staff recommendations. These include key core values of deeper affordability targets, long-term affordability, and geographic dispersion, as well as zoning incentives. Categories include the Central Business District, Downtown Mixed Use, Multi-Family, and Single Family.
— General Obligation Bonds. In November 2006, citizens of Austin approved the use of $55 million of general obligation bonds to increase homeownership and rental opportunities for low-to-moderate income households. Council approved a process for allocating housing bond funds and three categories by which bond funds can be accessed, within prescribed limits. In April 2007, Council approved the Stoneridge redevelopment project, the first project for the housing bonds.
— Other Council Affordable Housing Initiatives include Vertical Mixed Use Developments, Affordable Housing Partnership Agreements (Green Water Treatment Redevelopment), Transit Oriented Developments, and Downtown Affordable Housing.

OTHER

Financial Policies

To help ensure that the City's financial resources are managed in a prudent manner, the City has adopted a comprehensive set of Financial Policies. These policies are reviewed as part of the annual budget process and are published in the Approved Budget.

Internal Controls

City management is responsible for establishing, implementing, and maintaining a framework of internal controls designed to ensure that City assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The annual operating budget is proposed by the City Manager and enacted by the City Council after public discussion. Annual updates to the Capital Improvements Program budgets follow a similar process. Primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. As demonstrated by the statements and schedules included in the City's 2007 CAFR, the City continues to meet its responsibility for sound financial management.

Cash Management

The City's investment policy is to minimize credit and market risk while maintaining a competitive portfolio yield. Cash balances of all City funds are invested in consideration of five factors: safety, term, liquidity, market exposure, and rate of return. Cash balances of most funds, except for debt service and other legally restricted funds, are pooled for investment purposes. The City's investments are made in accordance with the Texas Public Funds Investment Act and the City of Austin Investment Policy. During 2007, the City's cash resources were invested in local government investment pools and U.S. Treasury and Agency issues.

Risk Management

The City maintains internal service funds to account for its risk of loss associated with torts and employee and workers' compensation benefits. In addition, the City continues to be self-insured for liabilities for most health benefits, third-party claims, and workers' compensation.

Pensions

The City participates in three contributory, defined benefit retirement plans for City employees. The plans are authorized by State Legislation, which governs the benefit and contribution provisions.

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	2000	% of Total	2005	% of Total	2006	% of Total	2007	% of Total	April, 2008	% of Total
Manufacturing	84,000	12.3%	57,500	8.4%	57,400	7.9%	60,600	7.9%	57,900	7.5%
Government	137,100	20.1%	146,800	21.5%	156,600	21.5%	158,400	20.8%	162,600	21.0%
Trade, transportation & utilities	116,000	17.0%	118,600	17.3%	151,400	20.8%	159,800	21.0%	159,300	20.5%
Services and miscellaneous	267,100	39.1%	281,300	41.1%	275,800	37.9%	290,100	38.0%	299,600	38.6%
Finance, insurance and real estate	35,400	5.2%	40,200	5.9%	42,500	5.8%	45,200	5.9%	46,000	5.9%
Natural resources, mining & construction	42,700	6.3%	39,800	5.8%	44,600	6.1%	49,200	6.4%	50,200	6.5%
Total	682,300	100.0%	684,200	100.0%	728,300	100.0%	763,300	100.0%	775,600	100.0%

(a) Austin-Round Rock MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically; data contained herein is the latest provided.

Source: Texas Labor Market Review, May 2008, Texas Workforce Commission.

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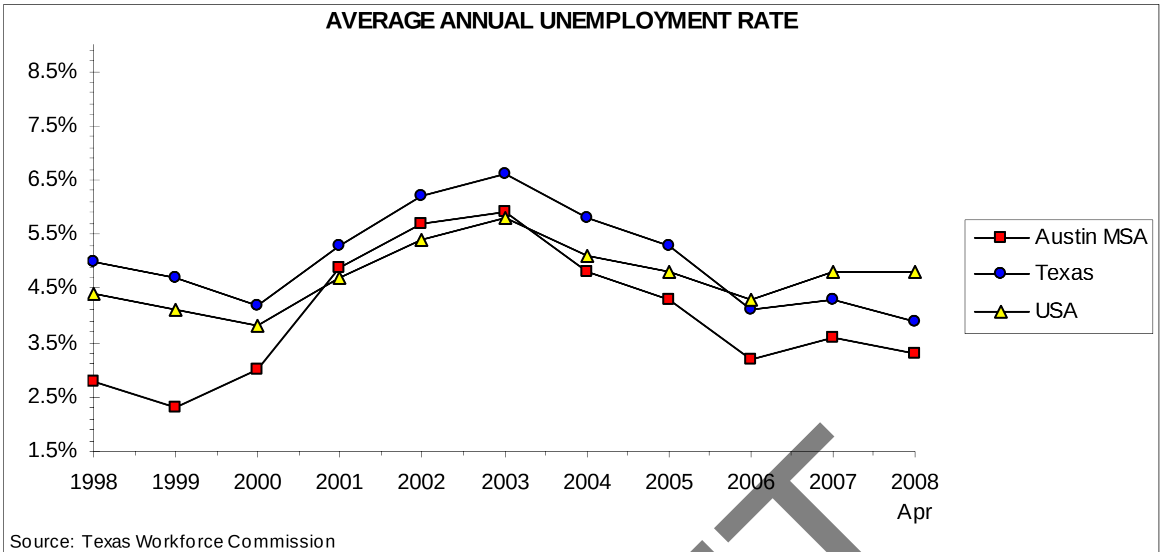
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
1998	2.8%	5.0%	4.4%
1999	2.3%	4.7%	4.1%
2000	3.0%	4.2%	3.8%
2001	4.9%	5.3%	4.7%
2002	5.7%	6.2%	5.4%
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006	3.2%	4.1%	4.3%
2007	3.6%	4.3%	4.8%
2008 April	3.3%	3.9%	4.8%

Note: Information is updated periodically, data contained herein is latest provided.
Source: Texas Labor Market Review, May 2008, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-04	$ 8.883	1-1-05	$ 9.076	1-1-06	$10.334	1-1-07	$11.422	1-1-08	$11.639
2-1-04	12.382	2-1-05	13.171	2-1-06	14.818	2-1-07	16.371	2-1-08	16.569
3-1-04	8.693	3-1-05	9.049	3-1-06	10.051	3-1-07	11.080	3-1-08	12.109
4-1-04	8.534	4-1-05	8.660	4-1-06	9.930	4-1-07	11.414	4-1-08	11.355
5-1-04	10.867	5-1-05	11.795	5-1-06	12.950	5-1-07	14.611	5-1-08	13.882
6-1-04	9.384	6-1-05	9.718	6-1-06	10.725	6-1-07	11.748	6-1-08	
7-1-04	8.980	7-1-05	8.936	7-1-06	11.981	7-1-07	12.011	7-1-08	
8-1-04	11.474	8-1-05	12.004	8-1-06	11.880	8-1-07	14.101	8-1-08	
9-1-04	9.157	9-1-05	9.938	9-1-06	11.152	9-1-07	11.883	9-1-08	
10-1-04	9.214	10-1-05	10.182	10-1-06	11.535	10-1-07	12.257	10-1-08	
11-1-04	11.340	11-1-05	11.735	11-1-06	13.401	11-1-07	14.774	11-1-08	
12-1-04	9.354	12-1-05	10.532	12-1-06	11.525	12-1-07	12.365	12-1-08	

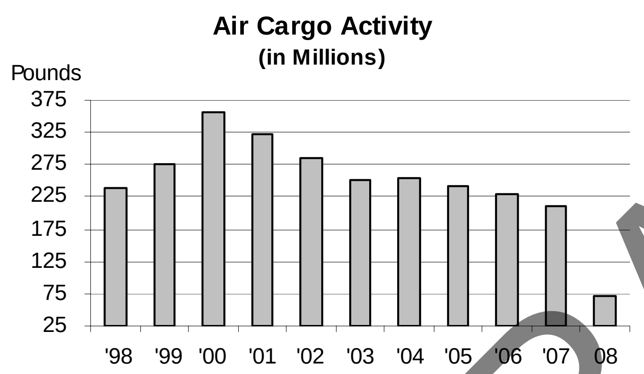
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2007)

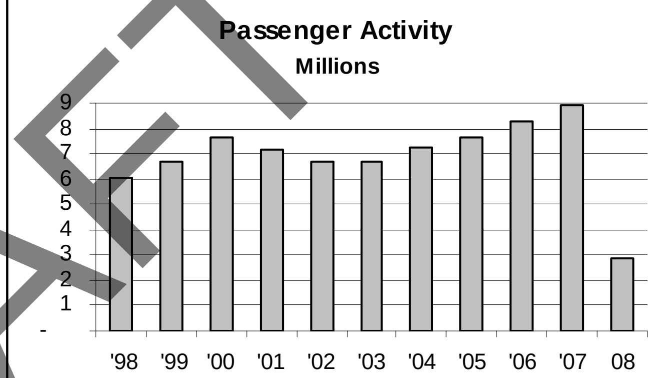
Employer	Product or Service	Employees
State Government	State Government	37,349
The University of Texas at Austin	Education	23,294
Dell Computer Corporation	Computers	17,000
City of Austin	City Government	11,795
Austin Independent School District	Education	11,423
Federal Government	Federal Government	10,700
HEB	Retail	7,095
Seton Healthcare Network	Healthcare	6,743
Wal-Mart	Retail	6,500
IBM Corporation	Computers	6,300

Source: 2007 Comprehensive Annual Financial Report.

Transportation



Source: COA Aviation Department. 2008 Activity through April - Calendar Year basis.



Source: COA Aviation Department. 2008 Activity through April - Calendar Year basis.

Austin-Bergstrom International Airport

Prior to May 23, 1999 all passenger activity was out of Robert Mueller Municipal Airport.

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by 12 major airlines with scheduled air service: Aeromexico, American, Continental, Delta, ExpressJet, Frontier, JetBlue, Midwest, Northwest, Southwest, United, and US Airways. Non-stop service is available to 44 U.S. destinations and 1 international destination.

Rail facilities are furnished by Union Pacific and Longhorn Railway Company. Amtrak brought passenger trains back to the City in January 1973, as one of the infrequent stops on the Mexico City-Kansas City route. Bus service is provided by Greyhound and Kerrville Bus-Coach USA.

On January 19, 1985, the citizens of Austin and several surrounding areas approved the creation of a metropolitan transit authority ("Capital Metro") and adopted an additional one percent sales tax to finance a transit system for the area which was later reduced to three quarters of a percent, effective April 1, 1989. On June 12, 1995, the Capital Metro board approved a one quarter percent increase in the sales tax thus returning to one percent effective October 1, 1995.

Wealth Indicators

The Austin-Round Rock MSA has experienced growth not only in population, but also in median household income and per capita personal income, while maintaining a low unemployment rate.

Demographic and Economic Statistics
Last Ten Fiscal Years

Year	City of Austin Population (1)	Area of Incorporation (Sq. Miles) (1)	Population MSA (2)(3)	Income (MSA) (Thousands of Dollars) (2)	Median Household Income MSA (4)	Capita Personnel Income MSA (2)	Unemployment Rate (MSA) (3)
1998	608,214	254	1,155,579	33,116,579	33,690	28,658	2.9
1999	619,038	252	1,205,898	37,408,615	36,532	31,021	2.3
2000	628,667	265	1,249,763	41,157,290	36,321	32,548	3.0
2001	661,639	266	1,319,797	42,489,015	39,811	32,213	4.9
2002	671,044	273	1,341,464	41,908,425	47,089	31,128	5.8
2003	674,719	276	1,376,008	43,104,097	41,909	31,325	6.0
2004	683,551	291	1,411,483	46,191,915	39,227	32,726	4.8
2005	695,881	294	1,454,706	50,101,884	40,335	34,441	4.4
2006	714,237	296	1,513,565	54,954,527	40,888	36,308	3.9
2007	732,381	297	1,567,317 (5)	59,938,903 (5)	42,263	38,243 (5)	3.7
1998-2008 Change	16.95%	14.71%	26.27%	44.75%	20.28%	25.06%	

(1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
(2) Source: Bureau of Economic Analysis.
(3) Source: Bureau of Labor Statistics, Texas A&M University as of September 30.
(4) Source: Claritas, a Nielsen Company.
(5) Data not available for 2007. Figures are estimated.

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Growth Indicators

Austin has experienced considerable growth as evidenced by the following utility connection and building permit statistics.

Connections and Permits

	Utility Connections			Building Permits		
Year	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1991	281,926	142,721	131,713	$ 327,777,503	$33,619,419	$ 361,396,922
1992	286,413	141,210	139,529	435,053,697	5,162,800	440,216,497
1993	291,896	146,396	143,088	607,717,144	70,976,449	678,693,593
1994	298,662	148,148	142,373	840,043,119	19,643,501	859,686,620
1995	306,670	149,867	147,023	870,446,315	11,087,831	881,534,146
1996	319,518	151,757	148,124	1,246,232,619	89,945,847	1,336,178,466
1997	326,816	156,397	156,752	1,023,114,762	2,574,539	1,025,689,301
1998	342,263	168,907	165,274	1,434,660,615	46,722,845	1,481,383,460
1999	348,721	173,038	173,150	1,501,435,229	54,399,189	1,555,834,418
2000	344,134	176,096	172,063	1,797,039,075	34,334,286	1,831,373,361
2001	349,671	178,608	172,177	1,625,508,854	71,189,116	1,696,697,970
2002	359,358	182,977	193,278	1,261,868,130	38,727,017	1,300,595,147
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,511	213,009	2,353,171,746	16,526,040	2,369,697,786

Source: 2006 Comprehensive Annual Financial Report.

Housing Units

The average two-bedroom apartment in the Austin MSA was $841 per month, with an occupancy rate of 93.0% for the first quarter 2008.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007	28,009	6,901,788,236	246,413
2008 April	7,336	1,740,551,654	237,262

Note: Information is updated periodically, data contained herein is latest provided.
Source: Real Estate Center at Texas A&M University.

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.1%
2003	76.5%
2004	76.7%
2005	83.1%
2006	87.5%
2007	85.6%
2008 (1st Quarter)	84.0%

Source: Oxford Commercial.

Education

The Austin Independent School District had an enrollment of 82,145 for the 2007 school year. This reflects an increase of 3.0% in enrollment from the end of the 2006 school year. The District includes 110 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,145	76,821
2007/08	81,340	76,342

Source: Austin Independent School District. (Data for the fifth six weeks, as of 4-18-08.)

The following institutions of higher education are located in the City: The University of Texas, St. Edward's University, Huston-Tillotson College, Concordia Lutheran College, Austin Presbyterian Theological Seminary, Episcopal Theological Seminary of the Southwest and Austin Community College.

The University of Texas at Austin had a preliminary enrollment of 47,568 for the spring semester of 2008 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were $4.143 billion in 2006. There are more than 255 hotels available within the Austin Metropolitan Area, as of the fourth quarter of 2007, with a hotel occupancy rate of nearly 64 percent.

Existing City convention and meeting facilities include a Convention Center, which is supported by hotel/motel occupancy tax collections and revenues of the facility and the new Lester E. Palmer Events Center with 70,000 square feet of exhibit space. Other facilities in Austin include the Frank Erwin Center, a 17,000-seat arena at The University of Texas, the Texas Exposition and Heritage Center, the Austin Music Hall, and The Long Center for Performing Arts. The Texas Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Music Hall has a concert seating capacity of 3,000 and 32,000 square feet of exhibit space. The Long Center for the Performing Arts, a $77 million venue, opened in March 2008. The Center contains two theaters; the 2,300-seat Michael and Susan Dell Hall and the flexible 240-seat Debra and Kevin Rollins Studio Theater. The new venue belongs to the City, while a private nonprofit operates the building.

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APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

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KPMG

KPMG LLP
Suite 1900
111 Congress Avenue
Austin, TX 78701-4091

R. Mendoza & Company, P.C.
Certified Public Accountants
2211 South I.H. 35, Suite 410
Austin, TX 78741

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council,
City of Austin, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas ("City"), as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14, the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budget Basis on pages 102 through 103, and the Retirement Plans Trend Information on page 104 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introduction, combining and fund financial statements and schedules, supplemental schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and fund financial statements and schedules, and supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introduction and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
April 25, 2008

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The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 42, No. 44 and No. 46.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2007, resulting in $4.3 billion of net assets. Net assets associated with governmental activities are approximately $1.6 billion, or 38% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.7 billion, or 62% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is $3.2 billion, or 73% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, are $591 million, or 14% of the City's total net assets. Unrestricted net assets for governmental activities are approximately $28 million, or 2% of total governmental net assets; unrestricted net assets for business-type activities are approximately $563 million, or 21% of total business-type net assets.

Total net assets for the City of Austin increased $211.5 million, or 5.1% during fiscal year 2007. Of this amount, governmental activities increased $67.1 million, or 4.3% from the previous year and business-type activities increased $144.4 million, or 5.6% from the previous year.

Total revenues for the City decreased $395 thousand; revenues for governmental activities increased $21.4 million; revenues for business-type activities decreased $21.8 million. Total expenses for the City increased $60.6 million; expenses for governmental activities increased $21.9 million; expenses for business-type activities increased $38.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, consisting of three components:
- government-wide financial statements,
- fund financial statements, and
- notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements, including information on individual funds.

a -- Government-wide financial statements
The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner comparable to a private-sector business. The two government-wide financial statements are, as follows:

- The ***Statement of Net Assets*** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Austin is improving or deteriorating.

<u>**OVERVIEW OF THE FINANCIAL STATEMENTS, continued**</u>

- The ***Statement of Activities*** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues for uncollected taxes and expenses for future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; and urban growth management. The business-type activities include electric, water, wastewater, airport, convention, environmental and health services, public recreation, and urban growth management.

The government-wide financial statements include the City as well as blended component units: the Austin Housing Finance Corporation (AHFC), the Austin Industrial Development Corporation (AIDC), and the Mueller Local Government Corporation (MLGC). The operations of AHFC, AIDC, and MLGC are included within the governmental activities of the government-wide financial statements. AHFC is reported as the Housing Assistance Fund. Although legally separate from the City, these component units are blended with the City because of their governance or financial relationships to the City.

b -- Fund financial statements
The fund financial statements are designed to report information about groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental, proprietary, and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These funds focus on current sources and uses of liquid resources and on the balances of available resources at the end of the fiscal year. This information may be useful in determining what financial resources are available in the near term to finance the City's future obligations. Other governmental funds are referred to as nonmajor governmental funds and are presented as aggregated data.

Because the focus of governmental fund level statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level financial statements.

The City's General Fund is reported as a major fund and information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balances. In addition, the City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Data from these governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for the funds is provided in the form of combining statements in the supplementary section of this report.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers – either outside customers or internal units or departments of the City. Proprietary fund statements provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of three of the City's major funds, Electric, Water and Wastewater and Austin-Bergstrom International Airport (Airport), as well as the nonmajor enterprise funds.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

- Internal Service funds are used to report activities that provide supplies and services for many City programs and activities. The City's internal service funds include: Capital Projects Management; Combined Transportation, Emergency and Communications Center; Employee Benefits; Fleet Maintenance; Information Systems; Liability Reserve; Support Services; Wireless Communication, and Workers' Compensation. Because these services predominantly benefit governmental operations rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

The nonmajor enterprise funds and the internal service funds are combined into separately aggregated presentations in the proprietary fund financial statements. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside City government. Since the resources of fiduciary funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting policies applied to fiduciary funds are much like those used for proprietary funds.

Comparison of government-wide and fund financial components. The following chart compares how the City's funds are included in the government-wide and fund financial statements:

Fund Types / Other	Government-wide	Fund Financials
General Fund	Governmental	Governmental - Major
Special revenue funds	Governmental	Governmental - Nonmajor
Debt service funds	Governmental	Governmental - Nonmajor
Capital project funds	Governmental	Governmental - Nonmajor
Permanent funds	Governmental	Governmental - Nonmajor
Internal service funds	Governmental	Proprietary
Governmental capital assets, including infrastructure assets	Governmental	Excluded
Governmental liabilities not expected to be liquidated with available expendable financial resources	Governmental	Excluded
Electric	Business-type	Proprietary - Major
Water and wastewater	Business-type	Proprietary - Major
Airport	Business-type	Proprietary - Major
Convention	Business-type	Proprietary - Nonmajor
Environmental and health services	Business-type	Proprietary - Nonmajor
Public recreation	Business-type	Proprietary - Nonmajor
Urban growth management	Business-type	Proprietary - Nonmajor
Fiduciary funds	Excluded	Fiduciary

Basis of reporting - The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

c -- Notes to the financial statements
The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the government-wide and fund financial statements.

d – Other information
The section, Required Supplementary Information (RSI), immediately follows the basic financial statements and related notes section of this report. The City adopts an annual appropriated budget for the General Fund. The RSI provides a comparison of revenues, expenditures and other financing sources and uses to budget and demonstrates budgetary compliance. In addition, trend information related to the City's retirement plans is presented in RSI. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net assets

The following table reflects a summary of net assets compared to prior year (in thousands):

Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Current assets	$ 520,779	547,513	1,413,295	1,276,240	1,934,074	1,823,753
Capital assets	2,167,656	2,099,504	5,592,256	5,426,068	7,759,912	7,525,572
Other noncurrent assets	3,609	3,639	585,745	585,186	589,354	588,825
Total assets	2,692,044	2,650,656	7,591,296	7,287,494	10,283,340	9,938,150
Current liabilities	229,183	220,389	473,123	419,196	702,306	639,585
Noncurrent liabilities	834,640	869,169	4,414,160	4,308,650	5,248,800	5,177,819
Total liabilities	1,063,823	1,089,558	4,887,283	4,727,846	5,951,106	5,817,404
Net assets:						
Invested in capital assets, net of related debt	1,530,124	1,399,316	1,648,758	1,538,572	3,178,882	2,937,888
Restricted	69,982	84,218	492,356	469,238	562,338	553,456
Unrestricted	28,115	77,564	562,899	551,838	591,014	629,402
Total net assets	$ 1,628,221	1,561,098	2,704,013	2,559,648	4,332,234	4,120,746

Total assets of the City increased by $345.2 million in the current fiscal year. Total liabilities increased by $133.7 million. Within the increase, governmental-type total assets increased by $41.4 million and business-type increased $303.8 million. Governmental-type liabilities decreased by $25.7 million and business-type increased $159.4 million.

Significant factors in the increase of governmental total assets include an increase in capital assets of $68.2 million, an increase in pooled investments and cash of $37.1 million and a decrease in accounts receivable of $51.2 million. Factors in the increase of governmental-type liabilities include an increase in current liabilities of $8.8 million, consisting of increases to accounts payable of $10.7 million, accrued compensated absences of $3.8 million, and a decrease to deferred credits and other liabilities of $4.1 million. Noncurrent liabilities decreased $34.5 million, consisting primarily of a decrease to general obligation bonds payable of $58.1 million and increases to pension obligation payable of $10.1 million and accrued compensated absences of $10.9 million.

Significant factors in the increase of business-type total assets include an increase in current assets of $137.1 million and noncurrent assets of $166.7 million. Within current assets, significant factors include an increase in pooled investments and cash of $142.5 million and a decrease in restricted investments of $10.3 million. Noncurrent assets increased due to an increase in capital assets of $166.2 million. Total liabilities increased by $159.4 million; significant increases include accounts and retainage payable from restricted assets of $10 million, bonded debt obligations of $72.9 million, decommissioning expense payable of $14.1 million, deferred credits and other liabilities of $38.2 and pension obligation of $9.3 million.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $4.3 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $3.2 billion, or 73% of the total amount of the City's net assets. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $562.3 million of the City's net assets, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance, $591 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased $38.4 million in the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for governmental and business-type activities separately.

b -- Changes in net assets

Total net assets of the City increased by $211.5 million in the current fiscal year. Governmental net assets increased $67.1 million. The increase is attributable to transfers from other funds of $67.4 million. Business-type net assets increased by $144.4 million due to revenues exceeding expenses by $211.7 million, net of transfers to other funds of $67.4 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program revenues:						
Charges for services	$ 132,670	139,776	1,594,441	1,610,435	1,727,111	1,750,211
Operating grants and contributions	57,331	77,923	--	--	57,331	77,923
Capital grants and contributions	2,942	1,111	50,898	69,804	53,840	70,915
General revenues:						
Property tax	258,943	236,146	--	--	258,943	236,146
Sales tax	153,098	139,289	--	--	153,098	139,289
Franchise fees and gross receipts tax	87,180	79,755	--	--	87,180	79,755
Grants and contributions not restricted to specific programs	73,711	90,083	--	--	73,711	90,083
Interest and other	54,963	35,315	60,970	47,905	115,933	83,220
Total revenues	820,838	799,398	1,706,309	1,728,144	2,527,147	2,527,542
Program expenses:						
General government	76,136	84,693	--	--	76,136	84,693
Public safety	397,583	373,361	--	--	397,583	373,361
Transportation, planning and sustainability	48,758	25,426	--	--	48,758	25,426
Public health	94,158	94,697	--	--	94,158	94,697
Public recreation and culture	72,082	65,453	--	--	72,082	65,453
Urban growth management	93,185	81,439	--	--	93,185	81,439
Unallocated depreciation expense - infrastructure	--	35,357	--	--	--	35,357
Interest on debt	39,166	38,766	--	--	39,166	38,766
Electric	--	--	929,057	918,369	929,057	918,369
Water	--	--	162,158	161,516	162,158	161,516
Wastewater	--	--	144,573	132,005	144,573	132,005
Airport	--	--	80,368	78,487	80,368	78,487
Convention	--	--	43,956	41,992	43,956	41,992
Environmental and health services	--	--	55,386	50,290	55,386	50,290
Public recreation	--	--	9,800	9,225	9,800	9,225
Urban growth management	--	--	69,293	63,981	69,293	63,981
Total expenses	821,068	799,192	1,494,591	1,455,865	2,315,659	2,255,057
Excess (deficiency) before special items and transfers	(230)	206	211,718	272,279	211,488	272,485
Transfers	67,353	65,974	(67,353)	(65,974)	--	--
Increase in net assets	67,123	66,180	144,365	206,305	211,488	272,485
Beginning net assets	1,561,098	1,494,918	2,559,648	2,353,343	4,120,746	3,848,261
Ending net assets	$ 1,628,221	1,561,098	2,704,013	2,559,648	4,332,234	4,120,746

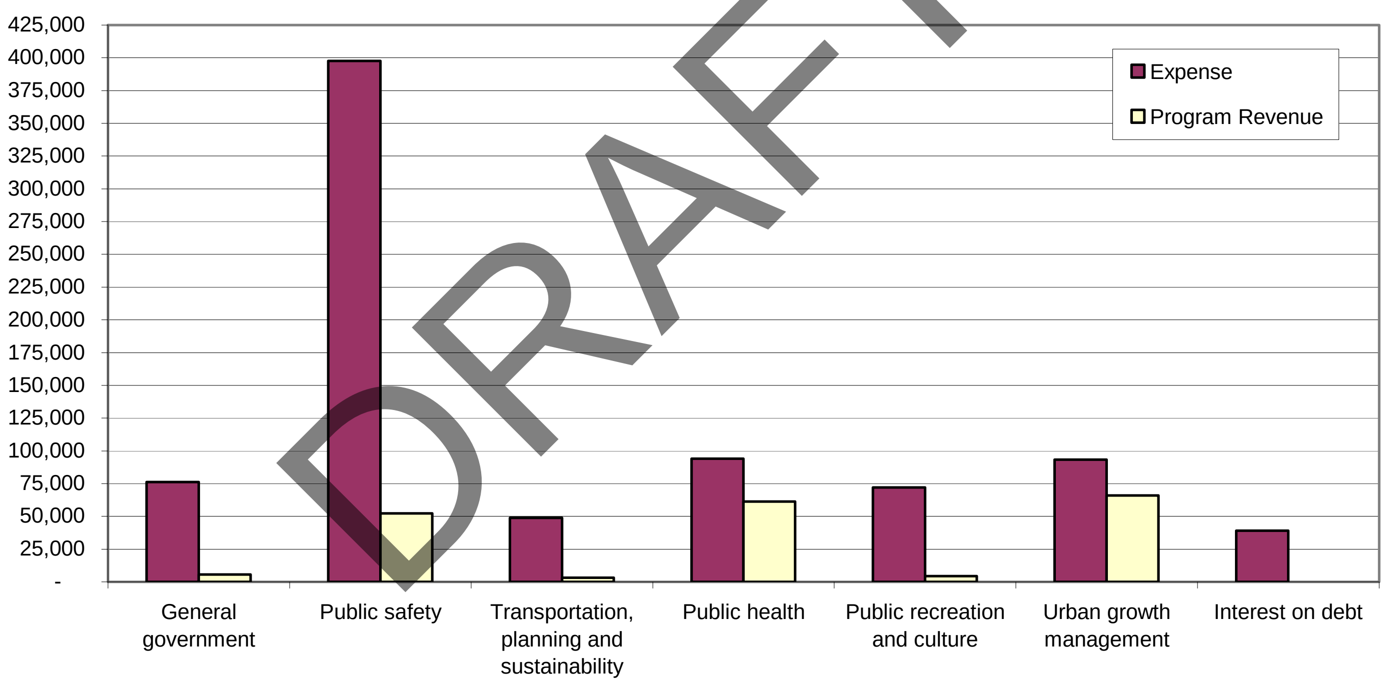
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

c -- Program revenues and expenses -- governmental activities
Governmental activities increased the City's net assets by $67.1 million in fiscal year 2007, a 4.3% increase of governmental net assets from the previous year. Key factors for the change from fiscal year 2006 to 2007 are as follows:

- The City's property tax revenue increased by $22.8 million from the previous year, despite a decrease in the City's tax rate from 44.3 cents to 41.3 per $100 valuation as a result of an increase in assessed property values.
- Sales tax revenue increased $13.8 million from the previous year, an increase of 10%.
- Franchise fees and gross receipts taxes increased $7.4 million, largely due to a $4.8 million increase in hotel occupancy tax collections and a $1.6 million increase in franchise fees.
- Grants and contributions not restricted to specific programs decreased $16.4 million, primarily due to a decrease in internal service capital contributions. Grants and contributions restricted to specific programs decreased $18.8 million, primarily as a result of lower intergovernmental grant revenues.

The chart below illustrates the City's governmental expense and revenues by function: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management and interest on debt.

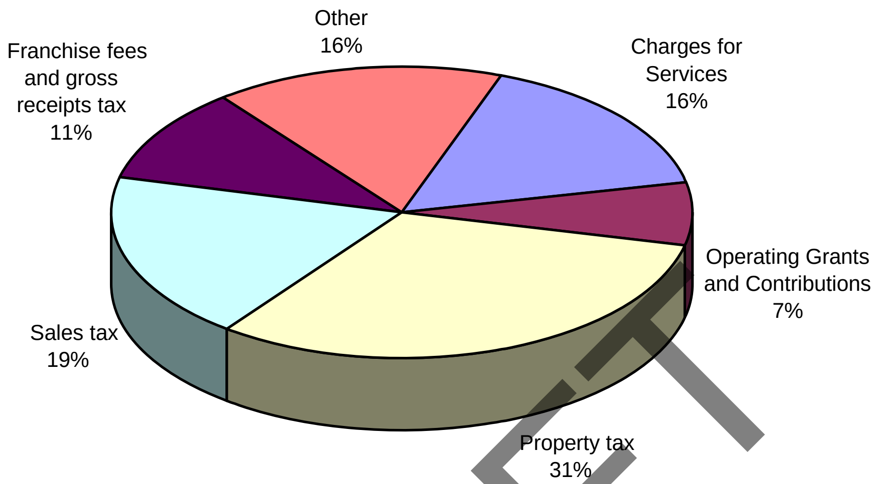
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

General revenues such as property taxes, sales taxes, and franchise fees are not shown by program, but are used to support all governmental activities. Property taxes are the largest source of general governmental revenues, followed by charges for services and sales taxes.

Government-wide Revenues by Source -- Governmental Activities



d -- Program revenues and expenses -- business-type activities

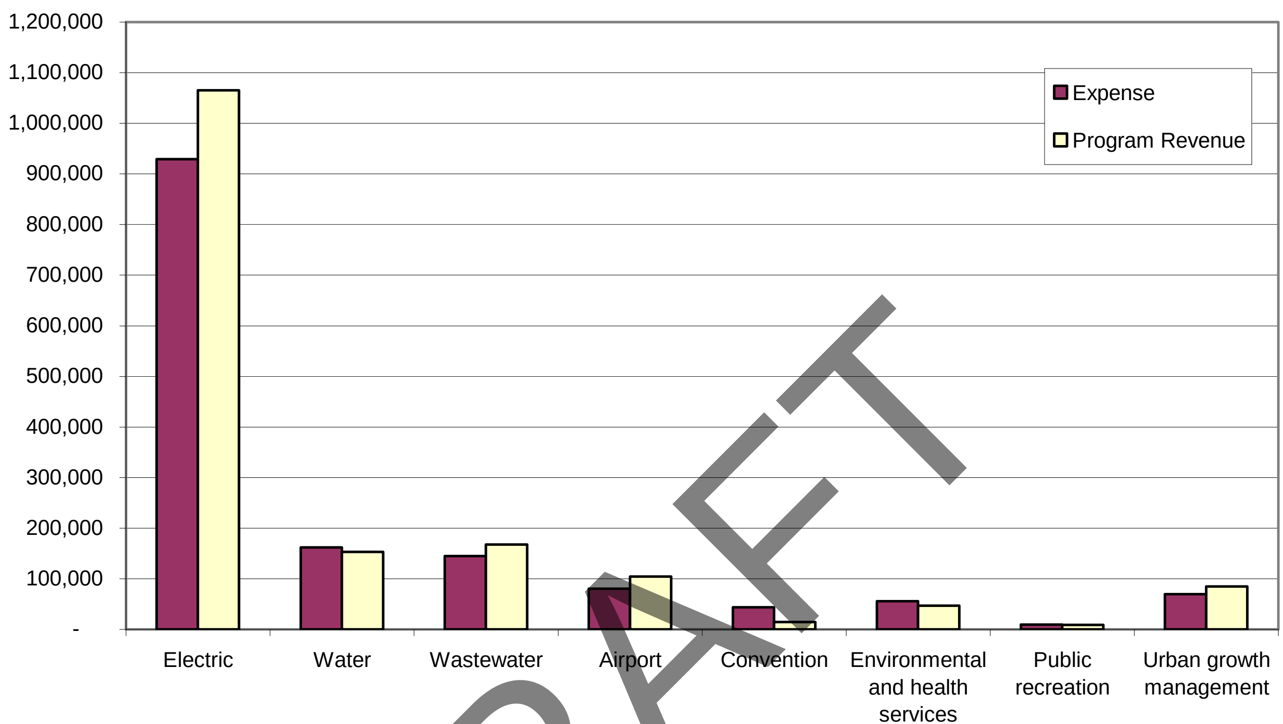
Business-type activities increased the City's net assets by approximately $144.4 million, accounting for a 3.5% increase in the City's total net assets. Key factors include:

- Electric net assets increased approximately $91.8 million. This increase is due primarily to an increase in electric consumption due to customer growth. Revenues decreased 2% due to decreased fuel costs while expenses increased 1% due to increased operating costs.
- Water and Wastewater net assets decreased approximately $7.2 million. This decrease is due primarily to decreased water consumption due to weather conditions. Water revenue for 2007 decreased by approximately 16.2% from the prior year. Wastewater revenue increased by 6.3% from the prior year due to a rate increase.
- Airport net assets increased approximately $31.6 million. Revenues increased due to an increase in passenger traffic, which was 9% higher than the previous calendar year. Expenses increased due to an increase in operations and maintenance costs.
- Convention net assets increased approximately $11.9 million. Revenue was 3% less than the prior year due to decreased demand for convention space and events. Expenses increased due to an increase in operations and maintenance costs.
- Environmental and health services activities are comprised of nonmajor enterprise funds that include the Solid Waste Services Fund, Primary Care Fund, and Hospital Fund. Net assets decreased by approximately $7.4 million. This decrease is primarily attributed to inadequate revenues needed to cover expenses in solid waste services operations.
- Public recreation activities are comprised of nonmajor enterprise funds that include the Golf Fund and Recreation Program Fund. Net assets decreased by $466,000, primarily due to insufficient Golf Fund operating revenues to cover operating costs.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately $23.4 million. This increase is primarily attributed to an increase in revenue of $2.9 million due to system growth and capital contributions. Operating expenses increased by $5.3 million due to salary increases, additional positions and programs added during the fiscal year.

As shown in the following chart, the electric utility, with expenses of $929 million, is the City's largest business-type activity, followed by water ($162 million), wastewater ($145 million), airport ($80 million), urban growth management ($69 million), environmental and health services ($55 million), convention ($44 million), and public recreation ($10 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except water, convention, public recreation, and environmental and health services.

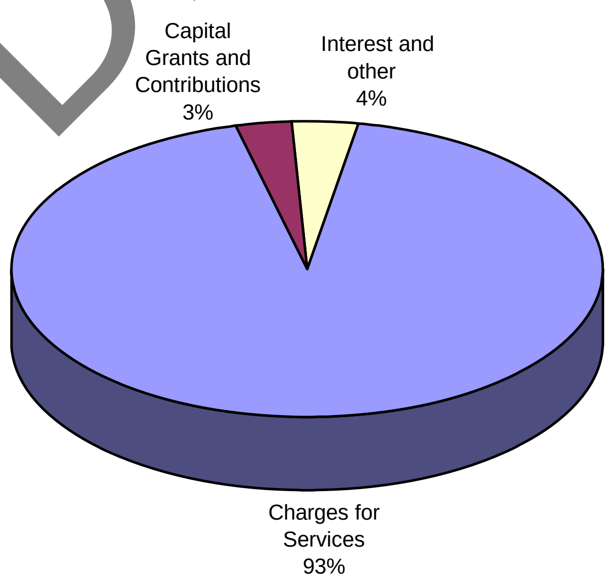
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

Government-wide Expenses and Program Revenues -- Business-type Activities
(Excludes General Revenues and Transfers)
(in thousands)



For all business-type activities, charges for services provide the largest percentage of revenues (93%), followed by interest and other revenues (4%) and capital grants and contributions (3%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

a -- Governmental funds

The City reports the following types of governmental funds: the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year.

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $310.8 million, a decrease of $38.8 million from the previous year. Approximately $193 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale, legally restricted permanent fund resources, and certain debt service amounts. Reserved fund balance increased $28 million in comparison to the prior year, primarily due to an increase in the reservation for encumbrances of $24.2 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $97.4 million, while total fund balance was $106.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 18% of total General Fund expenditures of $535.9 million, and total fund balance represents 20% of expenditures. The City's financial policies provide that surplus fund balance be designated for budget stabilization. This amount is a component of unreserved fund balance. The fund balance designated for budget stabilization was $51.4 million. The balance designated for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total designated amount, with the other two-thirds designated for budget stabilization in future years.

The General Fund fund balance decreased $5 million during the fiscal year, while unreserved fund balance decreased $7.7 million. Significant differences from the previous year include:

- Property tax revenues increased $17.8 million due to an increase in assessed property values. The City's property tax rate decreased from 44.3 cents to 41.3 cents per $100 valuation.
- Sales tax revenues increased $13.8 million.
- Licenses, permits, and inspections revenues increased $3.5 million largely due to increased building permits and inspections.
- General fund expenditures increased $55 million, due primarily to an increase in public safety expenditures of $35.5 million, an increase in general government expenditures of $8.3 million and an increase in public recreation and culture expenditures of $5.2 million.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds, including consolidation of the internal service funds activities, increased by $144.4 million.

Factors that contributed to the increase in net assets are discussed in the business-type activities section of the government-wide section.

OTHER INFORMATION

a -- General Fund budgetary highlights

The original expenditure budget of the General Fund was amended during fiscal year 2007 for increased public safety costs and general city responsibilities. The final expenditure budget was $893,000 higher than the original budget. The General Fund transfer budget was also amended by $2.1 million for increased internal service transfers.

During the year, revenues were $12.7 million more than budgeted. The difference resulted from higher than anticipated property tax and sales tax collections, in addition to an increase in building permit and development fees.

Actual General Fund budget-basis expenditures were $2.2 million less than budgeted. Police expenditures exceeded budget by $391,000; while all other General Fund departments were under budget. The total budget-basis fund balance at year-end amounted to $94.7 million, which was $18.9 million higher than budgeted.

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2007, total $7.8 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, construction in progress, nuclear fuel, and plant held for future use. The total increase in the City's capital assets for the current fiscal year was $234 million (3.1%), with an increase of 3.3% for governmental activities and an increase of 3.1% for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

Capital Assets, Net of Accumulated Depreciation
September 30
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land and improvements	$ 261	240	365	295	626	535
Other assets not depreciated	19	19	1	1	20	20
Building and improvements	425	412	1,367	1,385	1,792	1,797
Equipment	81	80	3,071	2,813	3,152	2,893
Vehicles	32	28	52	45	84	73
Infrastructure	1,167	1,140	--	--	1,167	1,140
Construction in progress	183	181	680	830	863	1,011
Nuclear fuel, net of amortization	--	--	28	29	28	29
Plant held for future use	--	--	28	28	28	28
Total net assets	$ 2,168	2,100	5,592	5,426	7,760	7,526

Major capital asset events during the current fiscal year include the following:

- Governmental capital assets increased $68 million primarily due to infrastructure additions, land acquisitions, and facility and system improvements.
- Business-type activities purchased or completed construction on capital assets of $166 million. The increase was largely due to Wastewater Fund expenditures for the South Austin Regional Wastewater Treatment Plant, the Northeast Austin Wastewater Treatment Plant, and Walnut Creek Wastewater Treatment Plant improvements, as well as for wastewater projects associated with the Austin Clean Water Program and Electric Fund expenditures for general infrastructure improvements.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported $4.4 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 10.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds and other tax supported debt, net	$ 787	847	101	111	888	958
Commercial paper notes, net	--	--	309	240	309	240
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,194	3,201	3,194	3,201
Capital lease obligations	--	1	4	6	4	7
Total	$ 787	848	3,636	3,586	4,423	4,434

During fiscal year 2007, the City's total outstanding debt decreased by $11 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities decreased $60 million due to the payment of existing debt. No new debt was issued.
- Outstanding debt for business-type functions increased $50 million. The City issued Electric Fund and Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper and existing debt.

During the current year the City's general obligation and combined utility revenue bond ratings remained unchanged while the Water and Wastewater separate lien revenue bonds received a favorable bond rating upgrade. Ratings at September 30, 2007 of the City's obligations for various debt instruments are as follows:

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2007	2006	2007	2006	2007	2006
General obligation bonds and other tax supported debt	Aa1	Aa1	AA+	AA+	AA+	AA+
Commercial paper notes	P-1	P-1	A-1+	A-1+	F1+	F1+
Commercial paper notes - taxable	P-1	P-1	A-1+	A-1+	F1+	F1+
Utility revenue bonds - prior lien	A1	A1	AA-	AA-	AA-	AA-
Utility revenue bonds - subordinate lien	A1	A1	A+	A+	AA-	AA-
Utility revenue bonds - separate lien:						
Electric	A1	A1	A+	A+	AA-	AA-
Water and Wastewater	Aa3	A1	A+	A	AA-	AA-
Airport system revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Airport variable rate bonds	P-1	P-1	NUR(1)	NUR(1)	NUR(1)	NUR(1)
Convention Center revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)

(1) No underlying rating

OTHER INFORMATION, continued

d -- Economic factors and next year's budget and rates

The local economy continued to grow in 2007, with sales tax revenues and property tax collections both increasing by 10% as compared to 2006. Job growth for the area continues to increase, with moderate growth forecasted in 2008. The local economy is expected to encounter lower economic growth in 2008, but is expected to perform better than the national economy. Nationally, the U.S. economy continues to be impacted by the housing crisis and rising oil prices. These issues are expected to significantly impact the local economy as well.

For the upcoming 2008 budget, the City will continue to focus on a multi-year budget horizon by judiciously adding to the budget for critical ongoing needs and one-time needs while maintaining a structurally balanced budget. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the City Council's priority of affordability, and continue to position the City to invest in its future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management will continue to monitor the economy and will be prepared to take any corrective actions to help mitigate unfavorable economic events.

The assessed taxable property value within the City increased by 13.6% for 2007. The property tax rate for fiscal year 2008 is 40.34 cents per $100 valuation. The tax rate consists of 27.30 cents for the General Fund and 13.04 cents for debt service. Each 1 cent of the property tax rate is equivalent to $6,873,679 of tax levy, as compared to $6,051,232 in the previous year. Rate increases for the Water and Wastewater Fund are: 6.9% for Water and 12.7% for Wastewater for a combined increase of 9.8%.

e -- Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial and Administrative Services Department of the City of Austin, P.O. Box 1088, Austin, Texas 78767, or (512) 974-3344 or on the web at http://www.ci.austin.tx.us/controller/.

(In thousands)

	Governmental Activities	Business-type Activities	2007 Total (†)
ASSETS			
Current assets:			
Cash	$ 90	63	153
Pooled investments and cash	376,730	365,810	742,540
Pooled investments and cash - restricted	--	400,380	400,380
Total pooled investments and cash	376,730	766,190	1,142,920
Investments, at fair value	15,201	2,889	18,090
Investments, at fair value - restricted	--	325,035	325,035
Cash held by trustee	4,017	--	4,017
Cash held by trustee - restricted	--	34,756	34,756
Working capital advances	--	5,100	5,100
Property taxes receivable	11,017	--	11,017
Less allowance for uncollectible taxes	(3,206)	--	(3,206)
Net property taxes receivable	7,811	--	7,811
Accounts and other receivables	166,443	206,465	372,908
Less allowance for doubtful accounts	(85,763)	(7,575)	(93,338)
Net accounts receivable	80,680	198,890	279,570
Receivables from other governments	14,147	--	14,147
Notes receivable, net of allowance	9,607	--	9,607
Internal balances	(1,564)	1,564	--
Internal balances - restricted	(1,065)	1,065	--
Inventories, at cost	1,988	70,556	72,544
Real property held for resale	11,831	--	11,831
Prepaid items	50	1,807	1,857
Other assets	1,256	2,214	3,470
Other receivables - restricted	--	3,166	3,166
Total current assets	520,779	1,413,295	1,934,074
Noncurrent assets:			
Investments held by trustee - restricted	--	99,200	99,200
Interest receivable - restricted	--	1,481	1,481
Capital assets			
Land and other nondepreciable assets	280,242	366,201	646,443
Property, plant, and equipment in service	2,540,623	7,269,960	9,810,583
Less accumulated depreciation	(836,439)	(2,779,471)	(3,615,910)
Net property, plant, and equipment in service	1,704,184	4,490,489	6,194,673
Construction in progress	183,230	680,161	863,391
Nuclear fuel, net of amortization	--	27,622	27,622
Plant held for future use	--	27,783	27,783
Total capital assets	2,167,656	5,592,256	7,759,912
Intangible assets, net of amortization	--	80,102	80,102
Other long-term assets	--	144	144
Deferred costs and expenses, net of amortization	3,609	404,818	408,427
Total noncurrent assets	2,171,265	6,178,001	8,349,266
Total assets	$ 2,692,044	7,591,296	10,283,340

(†) After internal receivables and payables have been eliminated.

(Continued)

The accompanying notes are an integral part of the financial statements.

(In thousands)

	Governmental Activities	Business-type Activities	2007 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 35,771	77,255	113,026
Accounts and retainage payable from restricted assets	--	43,733	43,733
Accrued payroll	22,535	11,752	34,287
Accrued compensated absences	39,404	18,876	58,280
Due to other governments	1	--	1
Claims payable	12,030	--	12,030
Accrued interest payable from restricted assets	--	49,856	49,856
Interest payable on other debt	3,313	4,762	8,075
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	57,174	7,120	64,294
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	3,153	3,153
Revenue bonds payable	--	36,960	36,960
Revenue bonds payable payable from restricted assets	--	128,589	128,589
Capital lease obligations payable	159	1,805	1,964
Customer and escrow deposits payable from restricted assets	--	28,336	28,336
Nuclear fuel expense payable from restricted assets	--	23,714	23,714
Accrued landfill closure and postclosure costs	--	1,265	1,265
Deferred credits and other liabilities	58,796	35,947	94,743
Total current liabilities	229,183	473,123	702,306
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	52,698	5,124	57,822
Claims payable	10,191	--	10,191
Capital appreciation bond interest payable	--	232,175	232,175
Commercial paper notes payable, net of discount	--	309,003	309,003
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	729,733	90,655	820,388
Revenue bonds payable, net of discount and inclusive of premium	--	3,028,054	3,028,054
Pension obligation payable	24,022	21,049	45,071
Capital lease obligations payable	316	2,767	3,083
Accrued landfill closure and postclosure costs	--	8,810	8,810
Decommissioning expense payable from restricted assets	--	148,763	148,763
Deferred credits and other liabilities	17,680	537,080	554,760
Other liabilities payable from restricted assets	--	2,680	2,680
Total noncurrent liabilities	834,640	4,414,160	5,248,800
Total liabilities	1,063,823	4,887,283	5,951,106
NET ASSETS			
Invested in capital assets, net of related debt	1,530,124	1,648,758	3,178,882
Restricted for:			
Debt service	14,548	107,187	121,735
Strategic reserve	--	169,479	169,479
Capital projects	37,608	116,719	154,327
Renewal and replacement	--	73,480	73,480
Passenger facility charges	--	16,266	16,266
Operating reserve	--	9,225	9,225
Perpetual Care:			
Expendable	660	--	660
Nonexpendable	1,040	--	1,040
Other purposes	16,126	--	16,126
Unrestricted	28,115	562,899	591,014
Total net assets	$ 1,628,221	2,704,013	4,332,234

(†) After internal receivables and payables have been eliminated.

The accompanying notes are an integral part of the financial statements.

(In thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**2007 Total**
Governmental activities							
General government	$ 76,136	2,633	103	2,942	(70,458)	--	(70,458)
Public safety	397,583	40,529	11,788	--	(345,266)	--	(345,266)
Transportation, planning, and sustainability	48,758	3,260	--	--	(45,498)	--	(45,498)
Public health	94,158	40,238	20,983	--	(32,937)	--	(32,937)
Public recreation and culture	72,082	2,998	1,507	--	(67,577)	--	(67,577)
Urban growth management	93,185	43,012	22,950	--	(27,223)	--	(27,223)
Interest on debt	39,166	--	--	--	(39,166)	--	(39,166)
Total governmental activities	821,068	132,670	57,331	2,942	(628,125)	--	(628,125)
Business-type activities							
Electric	929,057	1,056,488	--	8,513	--	135,944	135,944
Water	162,158	138,350	--	14,798	--	(9,010)	(9,010)
Wastewater	144,573	154,118	--	13,733	--	23,278	23,278
Airport	80,368	96,562	--	7,900	--	24,094	24,094
Convention	43,956	14,577	--	--	--	(29,379)	(29,379)
Environmental and health services	55,386	46,310	--	330	--	(8,746)	(8,746)
Public recreation	9,800	8,784	--	289	--	(727)	(727)
Urban growth management	69,293	79,252	--	5,335	--	15,294	15,294
Total business-type activities	1,494,591	1,594,441	--	50,898	--	150,748	150,748
Total	$ 2,315,659	1,727,111	57,331	53,840	(628,125)	150,748	(477,377)
General revenues:							
Property tax					258,943	--	258,943
Sales tax					153,098	--	153,098
Franchise fees and gross receipts tax					87,180	--	87,180
Grants and contributions not restricted to specific programs					73,711	--	73,711
Interest and other					54,963	60,970	115,933
Transfers-internal activities					67,353	(67,353)	--
Total general revenues and transfers					695,248	(6,383)	688,865
Change in net assets					67,123	144,365	211,488
Beginning net assets					1,561,098	2,559,648	4,120,746
Ending net assets					$ 1,628,221	2,704,013	4,332,234

The accompanying notes are an integral part of the financial statements.

(In thousands)

	2007		
	General Fund	**Nonmajor Governmental Funds**	**Total Governmental Funds**
ASSETS			
Cash	$ 68	5	73
Pooled investments and cash	90,921	191,739	282,660
Investments, at fair value	--	15,201	15,201
Cash held by trustee	--	3,185	3,185
Property taxes receivable	6,694	4,323	11,017
Less allowance for uncollectible taxes	(2,013)	(1,193)	(3,206)
Net property taxes receivable	4,681	3,130	7,811
Accounts and other receivables	136,336	25,766	162,102
Less allowance for doubtful accounts	(82,625)	(2,916)	(85,541)
Net accounts receivable	53,711	22,850	76,561
Receivables from other governments	--	14,147	14,147
Notes receivable, net of allowance	--	9,607	9,607
Due from other funds	237	37,944	38,181
Advances to other funds	--	7,721	7,721
Inventories, at cost	833	--	833
Real property held for resale	--	11,831	11,831
Prepaid items	31	--	31
Other assets	60	1,196	1,256
Total assets	150,542	318,556	469,098
LIABILITIES AND FUND BALANCES			
Accounts payable	6,038	19,035	25,073
Accrued payroll	17,457	1,048	18,505
Accrued compensated absences	410	--	410
Due to other funds	630	38,169	38,799
Due to other governments	1	--	1
Deferred revenue	15,784	9,606	25,390
Advances from other funds	--	348	348
Deposits and other liabilities	3,412	46,382	49,794
Total liabilities	43,732	114,588	158,320
Fund balances			
Reserved:			
Encumbrances	8,594	60,278	68,872
Inventories and prepaid items	864	--	864
Notes receivable	--	9,607	9,607
Advances receivable	--	7,721	7,721
Real property held for resale	--	11,831	11,831
Debt service	--	17,861	17,861
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	40,000	--	40,000
Contingencies	5,089	--	5,089
Future use	845	--	845
Budget stabilization	51,418	--	51,418
Unreserved, undesignated:			
Special revenue	--	48,916	48,916
Capital projects	--	46,054	46,054
Permanent funds	--	660	660
Total fund balances	106,810	203,968	310,778
Total liabilities and fund balances	$ 150,542	318,556	469,098

The accompanying notes are an integral part of the financial statements.

Total fund balances - Governmental funds	$ 310,778
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,115,170
Other long-term assets are not available as current-period resources and are not reported in the funds.	4,255
Long-term liabilities are not payable in the current period and are not reported in the funds.	(881,116)
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	79,134
Total net assets - Governmental activities	$ 1,628,221

The accompanying notes are an integral part of the financial statements.

For the year ended September 30, 2007
(In thousands)

	2007		
	General Fund	**Nonmajor Governmental Funds**	**Total Governmental Funds**
REVENUES			
Property taxes	$ 168,292	83,178	251,470
Sales taxes	153,098	--	153,098
Franchise fees and other taxes	37,461	49,719	87,180
Fines, forfeitures and penalties	16,094	4,865	20,959
Licenses, permits and inspections	25,635	--	25,635
Charges for services/goods	26,357	61,579	87,936
Intergovernmental	--	73,886	73,886
Property owners' participation and contributions	--	2,639	2,639
Interest and other	13,602	41,920	55,522
Total revenues	440,539	317,786	758,325
EXPENDITURES			
Current:			
General government	57,593	1,450	59,043
Public safety	369,535	14,150	383,685
Transportation, planning and sustainability	949	4,610	5,559
Public health	32,857	57,862	90,719
Public recreation and culture	54,827	7,751	62,578
Urban growth management	20,106	57,822	77,928
Debt service:			
Principal	--	59,929	59,929
Interest	--	39,156	39,156
Fees and commissions	--	10	10
Capital outlay-capital project funds	--	94,228	94,228
Total expenditures	535,867	336,968	872,835
Excess (deficiency) of revenues over expenditures	(95,328)	(19,182)	(114,510)
OTHER FINANCING SOURCES (USES)			
Transfers in	107,241	64,754	171,995
Transfers out	(16,907)	(79,341)	(96,248)
Total other financing sources (uses)	90,334	(14,587)	75,747
Net change in fund balances	(4,994)	(33,769)	(38,763)
Fund balances at beginning of year	111,804	237,737	349,541
Fund balances at end of year	$ 106,810	203,968	310,778

The accompanying notes are an integral part of the financial statements.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the year ended September 30, 2007
(In thousands)

Net change in fund balances - Governmental funds	$	(38,763)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		12,879
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		55,159
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		59,929
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		(22,936)
The net revenue of certain activities of internal service funds is reported with governmental activities.		855
Change in net assets - Governmental activities	$	67,123

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Net Assets
September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	$ 18	9	6
Pooled investments and cash	233,974	24,945	931
Pooled investments and cash - restricted	175,587	24,107	132,177
Total pooled investments and cash	409,561	49,052	133,108
Investments, at fair value	--	--	--
Investments, at fair value - restricted	249,940	59,857	12,998
Cash held by trustee	--	--	--
Cash held by trustee - restricted	28,762	5,994	--
Working capital advances	5,100	--	--
Accounts receivable	140,474	44,650	5,204
Less allowance for doubtful accounts	(2,004)	(715)	(165)
Net accounts receivable	138,470	43,935	5,039
Due from other funds	225	--	--
Due from other funds - restricted	--	27	617
Inventories, at cost	68,019	1,997	--
Prepaid expenses	1,670	125	12
Other assets	2,214	--	--
Other receivables - restricted	58	155	258
Total current assets	904,037	161,151	152,038
Noncurrent assets:			
Advances to other funds	2,460	--	--
Advances to other funds - restricted	--	81	140
Investments held by trustee - restricted	99,200	--	--
Interest receivable - restricted	1,481	--	--
Capital assets			
Land and other nondepreciable assets	59,662	145,357	88,428
Property, plant, and equipment in service	3,536,625	2,622,641	666,855
Less accumulated depreciation	(1,614,321)	(889,671)	(151,145)
Net property, plant, and equipment in service	1,922,304	1,732,970	515,710
Construction in progress	192,047	435,118	16,303
Nuclear fuel, net of amortization	27,622	--	--
Plant held for future use	27,783	--	--
Total capital assets	2,229,418	2,313,445	620,441
Intangible assets, net of amortization	--	80,102	--
Other long-term assets	144	--	--
Deferred costs and expenses, net of amortization	214,622	183,807	3,615
Total noncurrent assets	2,547,325	2,577,435	624,196
Total assets	$ 3,451,362	2,738,586	776,234

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
ASSETS			
Current assets:			
Cash	30	63	17
Pooled investments and cash	105,960	365,810	94,070
Pooled investments and cash - restricted	68,509	400,380	--
Total pooled investments and cash	174,469	766,190	94,070
Investments, at fair value	2,889	2,889	--
Investments, at fair value - restricted	2,240	325,035	--
Cash held by trustee	--	--	832
Cash held by trustee - restricted	--	34,756	--
Working capital advances	--	5,100	--
Accounts receivable	16,137	206,465	3,651
Less allowance for doubtful accounts	(4,691)	(7,575)	(222)
Net accounts receivable	11,446	198,890	3,429
Due from other funds	905	1,130	948
Due from other funds - restricted	--	644	--
Inventories, at cost	540	70,556	1,155
Prepaid expenses	--	1,807	19
Other assets	--	2,214	--
Other receivables - restricted	2,695	3,166	--
Total current assets	195,214	1,412,440	100,470
Noncurrent assets:			
Advances to other funds	1	2,461	--
Advances to other funds - restricted	200	421	--
Investments held by trustee - restricted	--	99,200	--
Interest receivable - restricted	--	1,481	--
Capital assets			
Land and other nondepreciable assets	72,754	366,201	712
Property, plant, and equipment in service	443,839	7,269,960	84,871
Less accumulated depreciation	(124,334)	(2,779,471)	(37,178)
Net property, plant, and equipment in service	319,505	4,490,489	47,693
Construction in progress	36,693	680,161	4,081
Nuclear fuel, net of amortization	--	27,622	--
Plant held for future use	--	27,783	--
Total capital assets	428,952	5,592,256	52,486
Intangible assets, net of amortization	--	80,102	--
Other long-term assets	--	144	--
Deferred costs and expenses, net of amortization	2,774	404,818	44
Total noncurrent assets	431,927	6,180,883	52,530
Total assets	627,141	7,593,323	153,000

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Net Assets
September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 66,474	2,849	2,043
Accounts and retainage payable from restricted assets	13,086	25,018	1,703
Accrued payroll	5,088	2,546	787
Accrued compensated absences	8,471	4,568	1,146
Claims payable	--	--	--
Due to other funds	--	--	10
Accrued interest payable from restricted assets	22,875	25,420	1,561
Interest payable on other debt	923	1,049	1
General obligation bonds payable and other tax supported debt	--	--	23
General obligation bonds payable and other tax supported debt payable from restricted assets	152	3,001	--
Revenue bonds payable	--	33,520	--
Revenue bonds payable from restricted assets	89,185	27,624	11,780
Capital lease obligations payable	30	1,327	446
Customer and escrow deposits payable from restricted assets	18,549	6,165	461
Nuclear fuel expense payable from restricted assets	23,714	--	--
Accrued landfill closure and postclosure costs	--	--	--
Deferred credits and other liabilities	27,940	7,077	527
Total current liabilities	276,487	140,164	20,488
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,345	805	167
Claims payable	--	--	--
Advances from other funds	--	4,506	--
Capital appreciation bond interest payable	112,506	119,669	--
Commercial paper notes payable, net of discount	149,941	159,062	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	1,596	16,475	311
Revenue bonds payable, net of discount and inclusive of premium	1,078,114	1,415,507	318,055
Pension obligation payable	9,382	4,741	1,478
Capital lease obligations payable	1,212	--	1,555
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	148,763	--	--
Deferred credits and other liabilities	76,003	456,238	617
Other liabilities payable from restricted assets	--	2,439	241
Total noncurrent liabilities	1,579,862	2,179,442	350,424
Total liabilities	1,856,349	2,319,606	370,912
NET ASSETS			
Invested in capital assets, net of related debt	898,760	321,975	263,883
Restricted for:			
Debt service	57,585	34,437	12,925
Strategic reserve	169,479	--	--
Capital projects	13,100	--	89,489
Renewal and replacement	61,559	--	10,000
Passenger facility charges	--	--	16,266
Operating reserve	--	--	7,882
Unrestricted	394,530	62,568	4,877
Total net assets	$ 1,595,013	418,980	405,322
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	3,306	2,746	953
Total net assets - Business-type activities	$ 1,598,319	421,726	406,275

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	5,889	77,255	10,698
Accounts and retainage payable from restricted assets	3,926	43,733	--
Accrued payroll	3,331	11,752	4,030
Accrued compensated absences	4,691	18,876	6,257
Claims payable	--	--	12,030
Due to other funds	1,130	1,140	964
Accrued interest payable from restricted assets	--	49,856	--
Interest payable on other debt	2,789	4,762	76
General obligation bonds payable and other tax supported debt	7,097	7,120	3,459
General obligation bonds payable and other tax supported debt payable from restricted assets	--	3,153	--
Revenue bonds payable	3,440	36,960	--
Revenue bonds payable from restricted assets	--	128,589	--
Capital lease obligations payable	2	1,805	1
Customer and escrow deposits payable from restricted assets	3,161	28,336	--
Nuclear fuel expense payable from restricted assets	--	23,714	--
Accrued landfill closure and postclosure costs	1,265	1,265	--
Deferred credits and other liabilities	403	35,947	1,096
Total current liabilities	37,124	474,263	38,611
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,807	5,124	896
Claims payable	--	--	10,191
Advances from other funds	5,496	10,002	253
Capital appreciation bond interest payable	--	232,175	--
Commercial paper notes payable, net of discount	--	309,003	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	72,273	90,655	14,800
Revenue bonds payable, net of discount and inclusive of premium	216,378	3,028,054	--
Pension obligation payable	5,448	21,049	--
Capital lease obligations payable	--	2,767	--
Accrued landfill closure and postclosure costs	8,810	8,810	--
Decommissioning expense payable from restricted assets	--	148,763	--
Deferred credits and other liabilities	4,222	537,080	--
Other liabilities payable from restricted assets	--	2,680	--
Total noncurrent liabilities	314,434	4,424,162	26,140
Total liabilities	351,558	4,898,425	64,751
NET ASSETS			
Invested in capital assets, net of related debt	164,140	1,648,758	33,055
Restricted for:			
Debt service	2,240	107,187	--
Strategic reserve	--	169,479	--
Capital projects	14,130	116,719	14,943
Renewal and replacement	1,921	73,480	--
Passenger facility charges	--	16,266	--
Operating reserve	1,343	9,225	--
Unrestricted	91,809	553,784	40,251
Total net assets	275,583	2,694,898	88,249
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,110	9,115	
Total net assets - Business-type activities	277,693	2,704,013	

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the year ended September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	$ 1,056,488	292,468	--
User fees and rentals	--	--	79,871
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,056,488	292,468	79,871
OPERATING EXPENSES			
Operating expenses before depreciation	711,181	134,824	47,298
Depreciation and amortization	115,166	73,592	17,722
Total operating expenses	826,347	208,416	65,020
Operating income (loss)	230,141	84,052	14,851
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	40,381	4,007	7,548
Interest on revenue bonds and other debt	(90,006)	(90,951)	(16,501)
Interest capitalized during construction	--	--	1,478
Passenger facility charges	--	--	16,691
Amortization of bond issue cost	(723)	(721)	(229)
Cost (recovered) to be recovered in future years	6,487	(9,623)	--
Other nonoperating expense	(19,300)	2,770	(24)
Total nonoperating revenues (expenses)	(63,161)	(94,518)	8,963
Income (loss) before contributions and transfers	166,980	(10,466)	23,814
Capital contributions	8,513	28,531	7,900
Transfers in	--	--	--
Transfers out	(84,500)	(25,491)	--
Change in net assets	90,993	(7,426)	31,714
Total net assets - beginning	1,504,020	426,406	373,608
Total net assets - ending	$ 1,595,013	418,980	405,322
Reconciliation to government-wide Statement of Activities			
Change in net assets	90,993	(7,426)	31,714
Adjustment to consolidate internal service activities	832	210	(72)
Change in net assets - Business-type activities	$ 91,825	(7,216)	31,642

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,348,956	--
User fees and rentals	148,923	228,794	--
Billings to departments	--	--	253,305
Employee contributions	--	--	31,441
Operating revenues from other governments	--	--	3,285
Other operating revenues	--	--	2,669
Total operating revenues	148,923	1,577,750	290,700
OPERATING EXPENSES			
Operating expenses before depreciation	147,022	1,040,325	272,260
Depreciation and amortization	18,818	225,298	9,223
Total operating expenses	165,840	1,265,623	281,483
Operating income (loss)	(16,917)	312,127	9,217
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	9,034	60,970	1,303
Interest on revenue bonds and other debt	(13,972)	(211,430)	(698)
Interest capitalized during construction	1,671	3,149	--
Passenger facility charges	--	16,691	--
Amortization of bond issue cost	(149)	(1,822)	(2)
Cost (recovered) to be recovered in future years	--	(3,136)	--
Other nonoperating expense	(842)	(17,396)	(4,007)
Total nonoperating revenues (expenses)	(4,258)	(152,974)	(3,404)
Income (loss) before contributions and transfers	(21,175)	159,153	5,813
Capital contributions	5,954	50,898	5,103
Transfers in	45,458	45,458	--
Transfers out	(2,820)	(112,811)	(8,394)
Change in net assets	27,417	142,698	2,522
Total net assets - beginning	248,166	2,552,200	85,727
Total net assets - ending	275,583	2,694,898	88,249
Reconciliation to government-wide Statement of Activities			
Change in net assets	27,417	142,698	
Adjustment to consolidate internal service activities	697	1,667	
Change in net assets - Business-type activities	28,114	144,365	

The accompanying notes are an integral part of the financial statements.

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,114,389	298,204	78,135
Cash payments to suppliers for goods and services	(570,583)	(69,867)	(32,164)
Cash payments to employees for services	(120,578)	(61,685)	(14,111)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(29,628)	--	--
Net cash provided (used) by operating activities	393,600	166,652	31,860
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(84,500)	(25,491)	--
Interest paid on revenue notes and other debt	(73)	(24)	--
Increase in deferred assets	1,867	--	--
Loans to other funds	(225)	--	--
Loans from other funds	--	725	10
Loan repayments to other funds	--	--	--
Loan repayments from other funds	435	27	668
Net cash provided (used) by noncapital financing activities	(82,496)	(24,763)	678
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	95,500	107,630	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	4,420	--
Principal paid on long-term debt	(103,580)	(50,493)	(10,084)
Purchased interest received	593	507	--
Interest paid on revenue bonds and other debt	(69,969)	(71,214)	(15,651)
Passenger facility charges	--	--	16,691
Acquisition and construction of capital assets	(183,160)	(138,133)	(19,994)
Contributions from municipality	--	--	--
Contributions from state and federal governments	--	--	12,016
Contributions in aid of construction	9,671	12,853	--
Bond issuance costs	--	165	--
Bond premiums	115	55	--
Cash paid for nuclear fuel inventory	(8,957)	--	--
Net cash provided (used) by capital and related financing activities	$ (259,787)	(134,210)	(17,022)

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	148,878	1,639,606	288,002
Cash payments to suppliers for goods and services	(63,385)	(735,999)	(104,975)
Cash payments to employees for services	(75,233)	(271,607)	(95,562)
Cash payments to claimants/beneficiaries	--	--	(68,543)
Taxes collected and remitted to other governments	--	(29,628)	--
Net cash provided (used) by operating activities	10,260	602,372	18,922
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	45,458	45,458	--
Transfers out	(2,820)	(112,811)	(8,394)
Interest paid on revenue notes and other debt	(3)	(100)	--
Increase in deferred assets	--	1,867	--
Loans to other funds	(573)	(798)	(230)
Loans from other funds	524	1,259	730
Loan repayments to other funds	(339)	(339)	(30)
Loan repayments from other funds	87	1,217	--
Net cash provided (used) by noncapital financing activities	42,334	(64,247)	(7,924)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	203,130	--
Proceeds from the sale of general obligation bonds and other tax supported debt	9,700	14,120	--
Principal paid on long-term debt	(7,247)	(171,404)	(3,328)
Purchased interest received	37	1,137	--
Interest paid on revenue bonds and other debt	(13,342)	(170,176)	(709)
Passenger facility charges	--	16,691	--
Acquisition and construction of capital assets	(31,665)	(372,952)	(9,923)
Contributions from municipality	--	--	2,419
Contributions from state and federal governments	--	12,016	--
Contributions in aid of construction	3,454	25,978	--
Bond issuance costs	(35)	130	--
Bond premiums	96	266	--
Cash paid for nuclear fuel inventory	--	(8,957)	--
Net cash provided (used) by capital and related financing activities	(39,002)	(450,021)	(11,541)

The accompanying notes are an integral part of the financial statements.

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (295,744)	(83,884)	(27,839)
Proceeds from sale and maturities of investment securities	313,565	73,069	38,891
Interest on investments	36,710	3,857	6,931
Net cash provided (used) by investing activities	54,531	(6,958)	17,983
Net increase in cash and cash equivalents	105,848	721	33,499
Cash and cash equivalents, October 1	332,493	54,334	99,615
Cash and cash equivalents, September 30	438,341	55,055	133,114
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	230,141	84,052	14,851
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	115,166	71,092	17,722
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	(1,084)	--	--
(Increase) decrease in accounts receivable	(3,181)	4,466	(1,353)
Increase (decrease) in allowance for doubtful accounts	(267)	22	15
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	(7,006)	(349)	--
Decrease in prepaid expenses and other assets	6,084	4	--
Decrease in deferred costs and other expenses	9,073	--	--
(Increase) decrease in other long-term assets	523	--	--
Increase (decrease) in accounts payable	(696)	21	518
Increase in accrued payroll and compensated absences	1,268	550	357
Decrease in claims payable	--	--	--
Increase in pension obligations payable	4,128	2,058	621
Increase (decrease) in deferred credits and other liabilities	35,316	868	(989)
Increase in customer deposits	4,135	1,368	118
Total adjustments	163,459	82,600	17,009
Net cash provided (used) by operating activities	$ 393,600	166,652	31,860

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(12,859)	(420,326)	--
Proceeds from sale and maturities of investment securities	11,232	436,757	--
Interest on investments	9,036	56,534	1,303
Net cash provided (used) by investing activities	7,409	72,965	1,303
Net increase in cash and cash equivalents	21,001	161,069	760
Cash and cash equivalents, October 1	153,498	639,940	94,159
Cash and cash equivalents, September 30	174,499	801,009	94,919
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(16,917)	312,127	9,217
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	18,818	222,798	9,223
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	(1,084)	--
(Increase) decrease in accounts receivable	(1,041)	(1,109)	(1,970)
Increase (decrease) in allowance for doubtful accounts	664	434	--
Decrease in due from other funds	(25)	(25)	(511)
(Increase) decrease in inventory	286	(7,069)	(84)
Decrease in prepaid expenses and other assets	15	6,103	3
Decrease in deferred costs and other expenses	--	9,073	28
(Increase) decrease in other long-term assets	--	523	(31)
Increase (decrease) in accounts payable	2,241	2,084	1,080
Increase in accrued payroll and compensated absences	1,444	3,619	1,164
Decrease in claims payable	--	--	1,012
Increase in pension obligations payable	2,485	9,292	--
Increase (decrease) in deferred credits and other liabilities	1,806	37,001	(209)
Increase in customer deposits	484	6,105	--
Total adjustments	27,177	290,245	9,705
Net cash provided (used) by operating activities	10,260	602,372	18,922

The accompanying notes are an integral part of the financial statements. (Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	$ (11,215)	128	--
Increase in capital appreciation bond interest payable	9,219	11,535	--
Capital assets contributed from (to) other funds	(149)	--	(70)
Increase in contributed facilities	--	15,883	--
Net increase in the fair value of investments	(4,050)	(450)	(666)
Amortization of bond issue costs	(689)	(721)	(229)
Amortization of bond discounts and premiums	(3,942)	(3,420)	(276)
Amortization of deferred loss on refundings	9,657	8,604	1,085
Gain (loss) on disposal of assets	(19,300)	2,769	(24)
Deferred loss on bond refunding	(20,433)	--	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	14,848	--	--
Deferred costs (recovered) to be recovered	6,487	(9,623)	--
Contributions from other funds	--	--	--
Increase in deferred credits and other liabilities	11,086	--	--
Capital lease obligations	1	--	2,320
Bonds issued for the advance refundings of debt	284,439	135,000	--
Bond issuance costs on advance refundings	(1,579)	(1,288)	--
Bond discounts on advance refundings	(1,291)	--	--
Bond premiums on advance refundings	18,192	488	--
Reduction of long-term debt due to advance refundings	(293,875)	(134,200)	--

The accompanying notes are an integral part of the financial statements.

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	(28)	(11,115)	--
Increase in capital appreciation bond interest payable	--	20,754	--
Capital assets contributed from (to) other funds	(41)	(260)	2,703
Increase in contributed facilities	--	15,883	--
Net increase in the fair value of investments	(999)	(6,165)	--
Amortization of bond issue costs	(148)	(1,787)	--
Amortization of bond discounts and premiums	(599)	(8,237)	(5)
Amortization of deferred loss on refundings	1,135	20,481	2
Gain (loss) on disposal of assets	(865)	(17,420)	(1,052)
Deferred loss on bond refunding	--	(20,433)	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	--	14,848	--
Deferred costs (recovered) to be recovered	--	(3,136)	--
Contributions from other funds	--	--	199
Increase in deferred credits and other liabilities	--	11,086	(258)
Capital lease obligations	3	2,324	--
Bonds issued for the advance refundings of debt	--	419,439	--
Bond issuance costs on advance refundings	--	(2,867)	--
Bond discounts on advance refundings	--	(1,291)	--
Bond premiums on advance refundings	--	18,680	--
Reduction of long-term debt due to advance refundings	--	(428,075)	--

The accompanying notes are an integral part of the financial statements.

(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 1,155	3,625
Other assets	121	--
Total assets	1,276	3,625
LIABILITIES		
Accounts payable	--	80
Due to other governments	--	2,704
Deposits and other liabilities	538	841
Total liabilities	538	3,625
NET ASSETS		
Held in trust	738	
Total net assets	$ 738	

The accompanying notes are an integral part of the financial statements.

	Private-purpose Trust
ADDITIONS	
Contributions	$ 271
Interest and other	54
Total additions	325
DEDUCTIONS	
Benefit payments	370
Total deductions	370
Net additions (deductions) before transfers	(45)
Total net assets - beginning	783
Total net assets - ending	$ 738

The accompanying notes are an integral part of the financial statements.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor and six Councilmembers, all of whom are elected at large for three-year staggered terms and may serve a maximum of two consecutive terms. A petition signed by 5% of the registered voters waives the term limit for a Councilmember.

The City's major activities or programs include general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management. In addition, the City owns and operates certain major enterprise activities including an electric utility, water and wastewater utility, airport, and non-major enterprise activities including convention, environmental and health services, public recreation, and urban growth management activities. These activities are included in the accompanying financial statements.

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with GAAP for local governments as prescribed by the GASB. The City has implemented GASB Statements No. 1 through No. 42, No. 44, and No. 46. The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is not subject to federal income taxes, under the Internal Revenue Code Section 115. Furthermore, it is not subject to state sales tax.

a -- Reporting Entity

As required by GAAP, these financial statements present the City's primary government, its component units, and other entities for which the City is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations; therefore, data from these units are combined with data of the City.

Blended Component Units -- The Austin Housing Finance Corporation (AHFC) and Austin Industrial Development Corporation (AIDC) are legally separate entities from the City. AHFC and AIDC serve all the citizens of Austin and are governed by a board composed of the City Councilmembers. The activities are reported in the Housing Assistance Fund and Austin Industrial Development Corporation Fund, which are nonmajor special revenue funds.

The Mueller Local Government Corporation (MLGC) is a non-profit local government corporation created by the City under Subchapter D of Chapter 431 of the Texas Transportation Code. MLGC was created for the purpose of financing infrastructure projects required for the development of the former site of Mueller Airport. The Austin City Council acts as the board of directors of the corporation; and members of the City staff serve as officers of the corporation. The entity is reported as a nonmajor special revenue fund in the City's financial statements.

Related Organizations -- The City Council appoints board members, but the City has no significant financial accountability for the following related organizations:

- Capital Metropolitan Transit Authority (Capital Metro) - The City's accountability for this organization does not extend beyond appointing board members.
- Austin-Bergstrom International Airport (ABIA) Development Corporation – City Councilmembers appoint themselves as members of the board, but their function on the board is ministerial rather than substantive.
- Austin-Bergstrom Landhost Enterprises, Inc. and Austin Convention Enterprises, Inc. – City Councilmembers appoint members of these boards. Debt issues by these entities do not constitute a debt or pledge of the faith and credit of the City.
- Austin Travis County Mental Health Retardation Center – The nine board members are appointed by the City, Travis County, and the Austin Independent School District.
- Urban Renewal Agency - The Mayor, with consent of the City Council, appoints the board of commissioners for this agency, whose primary responsibility is to oversee the implementation and compliance of urban renewal plans adopted by the City Council.
- Austin Housing Authority - The Mayor appoints the persons to serve as commissioners of this organization.
- Travis County Hospital District - City Councilmembers appoint four board managers, Travis County appoints four board managers, and the City and County mutually appoint one board manager. Travis County reports the Hospital District as a component unit on their financial statements.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
a -- Reporting Entity, continued

All of these entities are separate from the operating activities of the City. Related organizations are not included in the City's reporting entity.

The City of Austin retirement plans (described in Note 8) and the City of Austin Deferred Compensation Plan are not included in the City's reporting entity since the City does not exercise substantial control over these plans.

b -- Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all governmental and business-type activities of the primary government and its component units. Fiduciary activities are not included in the government-wide statements. Internal service fund asset and liability balances that are not eliminated in the statement of net assets are reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GASB Statement 34; the City has not elected to present additional major funds that do not meet the minimum criteria. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into governmental or enterprise nonmajor fund groupings.

The City's fiduciary funds are presented in the fund financial statements by type (private-purpose and agency). By definition, these assets are held for the benefit of a third party and cannot be used to address activities or obligations of the primary government; therefore, they are not included in the government-wide statements. Reconciliation of the fund financial statements to the government-wide financial statements is provided in the financial statements to explain the differences created by the integrated approach of GASB 34.

c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e. both measurable and available). Revenues, other than grants, are considered available when they are collectible within the current period or soon enough thereafter to liquidate liabilities of the current period (defined by the City as collected within 60 days of the end of the fiscal year). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed or when all eligibility requirements of the provider have been met, and they are considered to be available if expected to be collected within one year. Expenditures generally are recorded when a liability is due. However, expenditures related to compensated absences and arbitrage are recorded when payment is due. Debt service expenditures are recognized when payment is due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Property taxes, sales taxes, franchise taxes, hotel occupancy taxes, vehicle rental taxes, public health charges, emergency medical service charges, municipal court fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available in the fiscal period the City receives cash.

Governmental Funds: Consist of the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

The City reports the following major governmental fund:

General Fund: The primary operating fund of the City. It is used to account for all financial resources that are not required to be accounted for in another fund. It includes the following activities: general government; public safety; transportation, planning, and sustainability; public health; public recreation and culture; and urban growth management.

In addition, the City reports the following nonmajor governmental funds:

Special Revenue Funds: Account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, including grant funds.

Debt Service Funds: Account for the accumulation of resources for, and the payment of, general long-term debt and HUD Section 108 loan principal, interest, and related costs.

Capital Projects Funds: Account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds and private-purpose funds); they are funded primarily by general obligation debt, other tax supported debt, interest income, and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.

Permanent Funds: Account for resources that are legally restricted to the extent that only earnings (not principal) may be used for purposes that support the City's programs. Permanent funds account for the public recreation and culture activity.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing electric or water-wastewater services. Other revenues or expenses are nonoperating items.

Proprietary Funds: Consist of enterprise funds and internal service funds.

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. The City has elected to follow GASB statements issued after November 30, 1989, rather than statements issued by the Financial Accounting Standards Board (FASB), in accordance with GASB Statement No. 20

The City reports the following major enterprise funds:

Electric Fund: Accounts for the activities of the City-owned electric utility, doing business as Austin Energy ™.

Water and Wastewater Fund: Accounts for the activities of the City-owned water and wastewater utility, doing business as Austin Water™.

Airport Fund: Accounts for the operations of the Austin-Bergstrom International Airport (ABIA).

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
c -- Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

The City reports the following nonmajor business-type activities in Exhibit A-2:

Convention – Accounts for convention center and public events activities.
Environmental and health services – Accounts for hospital, primary care, and solid waste services activities.
Public recreation – Accounts for golf and parks and recreation activities.
Urban growth – Accounts for drainage and transportation activities.

Internal Service Funds: Account for the financing of goods or services provided by one city department or agency to other city departments or to other governmental units on a cost-reimbursement basis. These activities include, but are not limited to, capital projects management, combined emergency center operations, employee health benefits, fleet services, information services, liability reserve (city-wide self insurance) services, support services, wireless communication services, and workers' compensation coverage.

Fiduciary Funds: Account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, or other governments:

Private-purpose Trust Funds: Account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Private-purpose trust funds account for various purposes: general government, transportation, public recreation and culture, and urban growth management.

Agency Funds: Account for resources held by the City in a custodial capacity for permit fees; campaign financing donations and fees; Municipal Court service fees; and escrow deposits and payments to loan recipients.

d -- Budget

The City Manager is required by the City Charter to present a proposed operating and capital budget to the City Council no later than thirty days before the beginning of the new fiscal year. The final budget shall be adopted no later than the twenty-seventh day of the last month of the preceding fiscal year. During the final adoption process, the City Council passes an appropriation ordinance and a tax-levying ordinance.

Annual budgets are legally adopted for the General Fund, certain special revenue funds, and debt service funds. Additional information related to special revenue funds with legally adopted budgets can be found in Exhibit E-13. Annual budgets are also adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the project, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain charges to ending fund balance are budgeted as general city responsibilities.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annually budgeted funds.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council approves amendments to the budget and transfers of appropriations from one fund and department to another. The original and final budgets for the General Fund are reported in the required supplementary information. Unencumbered appropriations for annual budgets lapse at fiscal year end.

e -- Financial Statement Elements

Pooled Investments and Cash -- Cash balances of all city funds (except for certain funds shown in Note 5 as having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that incur a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2007. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2007 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 76,380	26,354	34,292	--	--	137,026
Nonmajor governmental funds	2,590	21	12,389	6,843	3,923	25,766
Internal service funds	3,651	--	--	--	--	3,651
Allowance for doubtful accounts	(72,779)	(12,984)	--	--	--	(85,763)
Total	$ 9,842	13,391	46,681	6,843	3,923	80,680

Business-type activities are primarily comprised of charges for services.

Elimination of Internal Activities -- The elimination of internal service fund activity is needed in order to eliminate duplicate activity in making the transition from the fund level financial statements to the government-wide financial statements. In addition, the elimination of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. A positive change in net assets derived from internal service fund activity results in a pro-rata reduction in the charges made to the participatory funds. A deficit change in net assets of internal service funds requires a pro-rata increase in the amounts charged to the participatory funds.

Internal Balances -- In the government-wide statement of net assets, internal balances are the receivables and payables between the governmental and business-type activities.

Interfund Activities -- In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred in the Support Services Fund, which is reported as an internal service fund. Indirect costs are calculated in a citywide cost allocation plan or through indirect cost rates, which are based on the cost allocation plan.

Interfund Receivables and Payables -- During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivables or payables are not expected to be liquidated within one year, they are classified as "advances to other funds" or "advances from other funds."

Inventories -- Inventories are valued at cost, which is determined as follows:

Fund	Inventory Valuation Method
General Fund	Average cost; postage first-in, first-out
Electric:	
Fuel oil and coal	Last-in, first-out
Other inventories	Average cost
All others	Average cost

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Inventories for all funds are accounted for using the consumption method and expenditures are recorded when issued. Inventories reported in the General Fund and certain special revenue funds are offset by a fund balance reserve, which indicates that they do not represent "available spendable resources."

Restricted assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Since the Electric Fund and Water and Wastewater Fund report in accordance with FASB Statement No. 71, enabling legislation also includes restrictions on asset use established by its governing board which is the City Council.

The balance of restricted assets in the enterprise funds are as follows (in thousands):

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Strategic reserve	$ 169,697	--	--	--	169,697
Capital projects	48,044	21,762	94,384	53,073	217,263
Customer and escrow deposits	20,416	8,602	461	3,162	32,641
Debt service	80,461	59,857	12,925	2,440	155,683
Federal grants	--	--	258	--	258
Plant decommissioning	149,483	--	--	--	149,483
Nuclear fuel inventory replacement	25,368	--	--	--	25,368
Operating reserve account	--	--	7,882	7,876	15,758
Passenger facility charge account	--	--	20,280	--	20,280
Renewal and replacement account	61,559	--	10,000	7,093	78,652
	$ 555,028	90,221	146,190	73,644	865,083

Capital assets -- Capital assets, which primarily include land and improvements, buildings and improvements, equipment, vehicles, and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net assets; related depreciation is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of $1,000 or more and an estimated useful life of greater than one year. Assets purchased or constructed are capitalized at historical cost. Contributed or annexed capital assets are recorded at estimated fair value at the time received. Capital outlay is recorded as an expenditure in the General Fund and other governmental funds and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred. Improvements and betterments that extend the useful lives of capital assets are capitalized.

The City obtains public domain capital assets (infrastructure) through capital improvement projects (CIP) construction or through annexation or developer contribution. Infrastructure assets include streets and roads, bridges, pedestrian facilities, drainage systems, and traffic signal systems acquired after September 30, 1980.

Interest is not capitalized on governmental capital assets. Enterprise funds, with the exception of the Electric Fund and Water and Wastewater Fund, capitalize interest paid on long-term debt when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by the bond proceeds issued to fund the project. Interest is not capitalized on Electric Fund and Water and Wastewater Fund assets in accordance with FASB Statement No. 71.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives (in years):

		Business-type Activities			
Assets	Governmental Activities (1)	Electric	Water and Wastewater	Airport	Nonmajor Enterprise
Buildings	5-40	15-50	15-50	15-40	12-40
Equipment	5-50	6-40	5-60	4-50	5-40
Vehicles	3-20	3-40	3-20	3-20	3-30
Communication equipment	7-15	7-18	7	7	7
Furniture and fixtures	7-12	12-40	12	10-12	7-12
Computers and EDP equipment	3-7	3-7	3-7	3-7	3-7
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds

Depreciation of assets is classified by functional component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts, treasures, and library collections is expected to be maintained over time and, thus, is not depreciated.

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets (other than debt-financed assets of the utility funds, where the gain or loss is deferred in accordance with FASB Statement No. 71).

Intangible Assets -- Proprietary Funds - Intangible assets include the amortized cost of a $100 million contract between the City and the Lower Colorado River Authority (LCRA) for a fifty-year assured water supply agreement, with an option to extend another fifty years. The City and LCRA entered into the contract in 1999. The asset amortization period is 40 years.

Deferred Expenses or Credits -- In accordance with FASB Statement No. 71, certain utility expenses that do not currently require funding are deferred to future periods in which they are intended to be recovered by rates. Likewise, certain credits to income are deferred to periods in which they are matched with related costs. These expenses or credits include changes in fair value of investments, contributions, and gain or loss on disposition of debt-financed assets. Deferred expenses will be recovered in these future periods by setting rates sufficient to provide funds for the related debt service requirements. If deferred expenses are not recoverable in future rates, the deferred expenses will be subject to write off. Retail deregulation of electric rates in the future may affect the City's current accounting treatment of its electric utility revenues, expenses, and deferred amounts.

Compensated Absences -- The amounts owed to employees for unpaid vacation and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements and in the enterprise activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements; the estimated liability for governmental funds is the amount of sick and vacation paid at termination within 60 days of fiscal year-end.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Accumulated leave payouts are limited to the lower of actual accumulated hours or the hours listed below:

	Work-week	Non-Civil Service Employees (1)	Civil Service Police (2)	Civil Service Fire (3)
Vacation	0-40	240	240	240
	42	270	N/A	N/A
	48	309	N/A	N/A
	53	N/A	N/A	360
	56	360	N/A	N/A
Sick leave	0-40	720	1020	720
	42	756	N/A	N/A
	48	926	N/A	N/A
	53	N/A	N/A	1080
	56	1080	N/A	N/A

(1) Non-civil service employees are eligible for accumulated sick leave payout if hired on or before October 1, 1986.
(2) Civil service police employees with 5 years of actual service are eligible for accumulated sick leave payout.
(3) Civil service fire employees are eligible for accumulated sick leave payout regardless of hire date.

Long-Term Debt -- The debt service for general obligation bonds and other general obligation debt (including loans), issued to fund general government capital projects, is paid from tax revenues, interfund transfers, and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

The debt service for general obligation bonds and other general obligation debt issued to finance proprietary fund capital projects is normally paid from net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principles and in view of the expectation that the proprietary fund will provide resources to service the debt.

Revenue bonds issued to finance capital projects of certain enterprise funds are to be repaid from net revenues of these funds. The corresponding debt is recorded in the applicable fund. Operating revenues and interest income that are used as security for revenue bonds are reported separately from other revenues.

The City has certain contractual commitments with several municipal utility districts (MUDs) for the construction of additions and improvements to the City's water and wastewater system that serve the MUDs and surrounding areas. These additions and improvements are funded by contract revenue bonds, whose principal and interest are payable primarily from the net revenues of Austin Water.

The City defers and amortizes gains or losses realized by proprietary funds on refundings of debt and for governmental activities in the government-wide financial statements, and reports both the new debt liability and the related deferred amount on the funds' statement of net assets. Austin Energy and Austin Water recognize gains or losses on debt defeasance in accordance with FASB Statement No. 71.

Other Long-Term Liabilities -- Capital appreciation bonds are recorded at net accreted value. Annual accretion of the bonds is recorded as interest expense during the life of the bonds. The cumulative accretion of capital appreciation bonds, net of interest payments on the bonds, is recorded as capital appreciation bond interest payable.

Landfill Closure and Postclosure Care Costs -- Municipal solid waste landfill costs are reported in accordance with GASB Statement No. 18, *"Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs"*. The liability for landfill closure and postclosure costs is reported in the Solid Waste Services Fund, a nonmajor enterprise fund.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
e -- Financial Statement Elements, continued

Operating Revenues -- Revenues are recorded net of allowances, including bad debt, in the government-wide and proprietary fund-level statements. The funds listed below reduced revenues by bad debt expense, as follows (in thousands):

Electric Fund	$	3,538
Water and Wastewater Fund		1,072
Airport		82
Nonmajor Enterprise Funds		703

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred or in future months. The City reported fuel costs on the same basis as it recognized revenue in 2007 and prior years. Unbilled revenue was recorded in the Electric Fund by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2007. The amount of unbilled revenue recorded, as of September 30, 2007, for the Electric Fund was $39.7 million. The Water and Wastewater Fund recorded unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2007. The amount of unbilled revenue recorded as of September 30, 2007 was $9.1 million for water and $9 million for wastewater.

Interfund Revenues, Expenses, and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds. The effect of interfund activity has been eliminated in the government-wide statements. However, if interfund services are provided, and used, such as billing for utility services, the costs and related revenue are not eliminated.

Intergovernmental Revenues, Receivables, and Liabilities -- Intergovernmental revenues and related receivables arise primarily through funding received from Federal and State grants. Revenues and receivables are earned through expenditure of money for grant purposes. Intergovernmental liabilities arise primarily from funds held in an agency capacity for other local governmental units.

Federal and State Grants, Entitlements, and Shared Revenues -- Grants, entitlements and shared revenues may be accounted for within any city fund. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the appropriate fund statement and revenue category in which to report the related transactions. Grants, entitlements, and shared revenues received for activities normally recorded in a particular fund may be accounted for in that fund, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally accounted for within the nonmajor governmental fund groupings include: Federal grant funds, State grant funds, and other special revenue grant funds. Capital grants restricted for capital acquisitions or construction, other than those associated with proprietary type funds, are accounted for in the applicable capital projects funds. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenditures are recognized in the applicable proprietary fund.

Restricted Resources -- If both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and unrestricted resources as needed.

Reservations of Fund Equity -- Reservation of fund balances of the governmental funds indicate the portion of fund equity that is not available for appropriation for expenditure or is legally restricted by outside parties for use for a specific purpose. Designations of fund balance are the representations of management for the utilization of resources in future periods.

Cash and Cash Equivalents -- For purposes of the statement of cash flows, the City considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investments and cash accounts. The City considers the investment pool to be highly liquid, similar to a mutual fund.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
f -- Comparative Data

Pension Costs -- State law governs pension contribution requirements and benefits. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost (see Note 8).

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts; theft of, damage to, or destruction of assets; fraud; and natural disasters. The City is self-insured for legal liabilities, workers' compensation claims, and a portion of employee health benefits.

The City does not participate in a risk pool but purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bonds, airport operations, and contractors working at selected capital improvement project sites. It complies with GASB Statement No. 10, *"Accounting and Reporting for Risk Financing and Related Insurance Issues"* (see Note 14).

Austin Energy has established an energy risk management program. This program was authorized by City Council and led by the risk oversight committee. Under this program, Austin Energy enters into futures contracts, options, and swaps to reduce exposure to natural gas and energy price fluctuations. For additional details see Note 14.

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A). Comparative data has been utilized within the MD&A to more fully understand the City's financial statements for the current period.

g -- Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

a -- Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets

Total fund balance reported in the City's fund-level governmental funds balance sheet ($310.8 million) differs from the net assets reported in governmental activities within the government-wide financial statements ($1.63 billion). The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Total fund balances - Governmental funds - balance sheet		$ 310,778
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	2,914,431	
Less: accumulated depreciation	(799,261)	
Total		2,115,170
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	690	
Deferred costs and expenses	3,565	
Total		4,255
Long-term liabilities are not payable in the current period and are not reported in the funds.		
Bonds and other tax supported debt payable, net	(768,648)	
Pension obligation payable	(24,022)	
Capital lease obligations payable	(474)	
Compensated absences	(84,539)	
Interest payable	(3,237)	
Deferred credits and other liabilities	(196)	
Total		(881,116)
Internal service funds		79,134
Total net assets - Governmental activities		$ 1,628,221

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, continued

b -- Explanation of differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change in fund balances of governmental funds ($38.8 million) differs from the change in net assets for governmental activities ($67.1 million) as reported in the statement of activities. The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Net change in fund balances - Governmental funds		$ (38,763)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of assets is allocated over the estimated useful life of the asset and reported as depreciation expense.		
Capital outlay	93,984	
Depreciation expense	(81,036)	
Loss on disposal of capital assets	(69)	
Total		12,879
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	7,473	
Charges for services	(5,635)	
Operating grants and contributions	(715)	
Interest and other	(3)	
Capital assets contribution	54,039	
Total		55,159
Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayment on long-term debt	59,929	
Total		59,929
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(13,836)	
Pension obligation	(10,108)	
Interest and other	1,008	
Total		(22,936)
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		855
Change in net assets - Governmental activities		$ 67,123

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2007, the following funds reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

Nonmajor Governmental	Deficit (in thousands)
Special Revenue Funds:	
Medicaid Administrative Claims	$ 696
Cable TV	104
Rutherford Lane Facility Fund	501
City Hall Fund	328
RMMA Reimbursement	18
Capital Projects Funds:	
Parks and recreation facilities	283
Radio Trunking	3,434
Transportation	1,239
Drainage & Open Spaces	3,253
Parks	2,799
Cultural Facilities	3
Public Safety	163
Health projects	73
Build Austin	574
Build Central Texas	1,860
CMTA Mobility	1,926
Capital reserve	3,944
Public Works	268
Watershed Protection	657
City Hall, plaza, parking garage	7,082
Conservation Land	15
Internal Service Funds:	
Capital Projects Management	469

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2007 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	**Restricted**
General Fund	$ 90,921	--
Nonmajor governmental funds	191,739	--
Electric	233,974	175,587
Water and Wastewater	24,945	24,107
Airport	931	132,177
Nonmajor enterprise funds	105,960	68,509
Internal service funds	94,070	--
Fiduciary funds	4,780	--
Subtotal pooled investments and cash	747,320	400,380
Total pooled investments and cash	$ 1,147,700	

5 – INVESTMENTS AND DEPOSITS
a -- Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal and liquidity; addresses investment diversification, yield, and maturity; and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by the City Council. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity of any individual investment, and the maximum average dollar weighted maturity allowed for pooled fund groups. In addition, it includes an "Investment Strategy Statement" that specifically addresses each fund's investment options and describes the priorities of suitability of investment type, preservation, and safety of principal, liquidity, marketability, diversification, and yield. Additionally, the soundness of financial institutions in which the City will deposit funds is addressed.

The City Treasurer submits an investment report each quarter to the investment committee and City Council. The report details the investment position of the City and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas state law.

The City is authorized to invest in the following investment instruments if they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
4. Obligations of other states, cities, counties or other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
5. Bankers' acceptances so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, is eligible collateral for borrowing from a Federal Reserve Bank and is accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated;
6. Commercial paper with a stated maturity of 270 days or less from the date of its issuance that is either rated not less than A-1, P-1 or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P-1 or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
7. Collateralized repurchase agreements having a defined termination date and described in more detail in the Investment Policy;
8. Certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or as further described in the Investment Policy;
9. Certificates of deposit issued by savings banks domiciled in Texas;
10. Share certificates issued by a state or federal credit unions domiciled in Texas;
11. Money market mutual funds; and
12. Local government investment pools (LGIPs).

The City participates in two Local Government Investment Pools: TexPool and TexasDAILY. The State Comptroller oversees TexPool, with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over TexasDAILY, an advisory board consisting of participants or their designees maintains oversight responsibility for TexasDAILY. Public Financial Management Asset Management LLC manages the daily operations of the pool under a contract with the advisory board.

5 – INVESTMENTS AND DEPOSITS, continued

a -- Investments

The City invests in TexPool and TexasDAILY to provide its liquidity needs. TexPool and TexasDAILY are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool and TexasDAILY are 2(a)7- like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool and TexasDAILY are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2007, TexPool and TexasDAILY had a weighted average maturity of 54 days and 42 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2007.

All city investments are insured, registered, or held by an agent in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all non-pooled and pooled investment types of the City at September 30, 2007 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 15,201	164,439	--	179,640
US Treasury Notes	--	111,835	--	111,835
US Agency Bonds	--	150,850	--	150,850
Total non-pooled investments	15,201	427,124	--	442,325
Pooled investments:				
Local Government Investment Pools	119,505	242,908	1,465	363,878
US Treasury Notes	4,944	10,056	63	15,063
US Agency Bonds	250,073	508,515	3,252	761,840
Total pooled investments (1)	374,522	761,479	4,780	1,140,781
Total investments	$ 389,723	1,188,603	4,780	1,583,106

(1) A difference of $6.9 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

At September 30, 2007, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in thousands): Federal Home Loan Bank ($387,002 or 24%), Federal Home Loan Mortgage Corporation ($164,236 or 10%), and Federal National Mortgage Association ($249,814 or 16%).

b -- Investment categories

The risk exposures for governmental and business-type activities, individual major funds, nonmajor funds in the aggregate, and fiduciary fund types of the City are not significantly greater than the deposit and investment risk of the primary government. The Investment Policy segregates the portfolios into strategic categories including:

1. Operating funds excluding a special project fund;
2. Debt service funds;
3. Special project fund.

Complying with the City's Investment Policy, which includes qualification of the brokers and financial institutions with whom the City will transact, sufficient collateralization, portfolio diversification, and maturity limitations, controls the City's credit risk.

5 – INVESTMENTS AND DEPOSITS, continued
b – Investment categories

Operating Funds (excluding special project fund)
As of September 30, 2007, the City operating funds (excluding the special project fund) had the following investments:

	Fair Value (in thousands)				
Investment Type	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Weighted Average Maturity (days)
Local Government Invest Pools	$ 119,505	242,908	1,465	363,878	1
US Treasury Notes	4,944	10,056	63	15,063	350
US Agency Bonds	250,073	508,515	3,252	761,840	461
Total pooled investments	$ 374,522	761,479	4,780	1,140,781	312

Credit Risk
Approximately 8% of the portfolio consists of direct obligations of the US government. As of September 30, 2007, Standard and Poor's issued the following ratings for other investments:

Investment Type	Portfolio %	Rating
LGIPs	34	AAAm
US Agency Bonds and Step Bonds	58	AAA

At September 30, 2007, the operating funds held investments with more than 5 percent of the total in securities of the following issuers: Federal Home Loan Bank ($326 million or 29 percent), Federal National Mortgage Association ($215 million or 19 percent), Federal Home Loan Mortgage Corporation ($150 million or 13 percent) and Federal Farm Credit Bank ($70 million or 6%).

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements. Three years is the maximum period before maturity.

At September 30, 2007, nearly a third of the Investment Pool was invested in AAAm rated LGIPs (2(a) 7-like pools), with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity for all securities was 312 days, which was less than the threshold of 365 days.

Debt Service Funds
As of September 30, 2007, the City's debt service funds had the following investments:

	Fair Value (in thousands)		
	Governmental Activities	Business-type Activities	Final Maturity
General Obligation Debt Service			
TexPool (LGIPs)	$ 15,201	–	N/A
Enterprise-Utility (1)			
TexPool (LGIPs)	--	140,019	N/A
US Treasury SLG 3.937% of 11/17/07	--	297	11/17/2007
Enterprise-Airport			
TexPool (LGIPs)	--	12,925	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	5,129	N/A
Total	$ 15,201	158,370	

(1) Includes combined pledge debt service

5 – INVESTMENTS AND DEPOSITS, continued
b -- Investment categories, continued

Credit Risk
As of September 30, 2007, Standard and Poor's rated both TexPool and TexasDAILY AAAm.

Interest Rate Risk
Investment strategies for debt service funds have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. As a means of minimizing risk of loss due to interest rate fluctuations, securities purchased cannot have a stated final maturity date which exceeds the debt service payment date.

At September 30, 2007, portfolios in this category held investments in AAAm rated LGIPs or direct obligations of the US Treasury.

Special Project Fund
As of September 30, 2007, the City's special project fund had the following investments:

	Fair Value (in thousands) Business-type Activities	Final Maturity
Airport Construction		
TexPool (LGIPs)	$ 73	N/A
Total special projects fund	$ 73	

Credit Risk
As of September 30, 2007, Standard and Poor's rated TexPool AAAm.

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

At September 30, 2007, the portfolios held investments in an AAAm rated LGIP and US Agencies with maturities that will meet anticipated cash flow requirements.

Special Purpose Funds
Austin Energy Strategic Reserve Fund
As of September 30, 2007, the City's Special Purpose Fund (Austin Energy Strategic Reserve Fund) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (days)
Local Government Investment Pools	$ 6,293	1
US Treasury Notes	70,720	1,254
US Agency Bonds	92,468	1,332
Total	$ 169,481	1,250

Credit Risk
At September 30, 2007, the Electric Utility Department Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard and Poor's rated the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2007, the Austin Energy Strategic Reserve Fund held investments with more than 5 percent of the total in securities of the following issuers: Federal Farm Credit Bank ($23 million or 14 percent), and Federal Home Loan Bank ($44 million or 26 percent), and Federal National Mortgage Association ($25 million or 15%).

5 – INVESTMENTS AND DEPOSITS, continued
b -- Investment categories, continued

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities in this category not exceed the anticipated cash flow requirements of the funds.

At September 30, 2007, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 1,250 days (3.42 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2007, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasury Notes	$ 40,818	4.45
US Agency Bonds	58,382	5.06
Total	$ 99,200	4.82

Credit Risk
As of September 30, 2007, Standard and Poor's rate the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2007, the NDTF held investments with more than 5 percent of the total in securities of the following issuers: Federal Home Loan Bank ($16 million or 16 percent), Federal Home Loan Mortgage Corporation ($14 million or 14 percent), Federal National Mortgage Association ($10 million or 10 percent), and Federal Farm Credit Bank ($18 million or 18 percent).

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Decommissioning Trust Fund portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2007, the dollar weighted average maturity was 4.82 years.

Investments and deposits at September 30, 2007, are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	$ 19,308	461,943	--	481,251
Pooled investments and cash	374,952	762,355	4,780	1,142,087
Total investments and cash	394,260	1,224,298	4,780	1,623,338
Unrestricted cash	4,107	63	--	4,170
Restricted cash	--	34,756	--	34,756
Pooled cash	374,952	762,355	4,780	1,142,087
Investments	15,201	427,124	--	442,325
Total investments and cash	$ 394,260	1,224,298	4,780	1,623,338

A difference of $5.6 million exists between bank balance and book balance, primarily due to deposits in transit offset by outstanding checks.

5 – INVESTMENTS AND DEPOSITS, continued
c – Investments and Deposits

Deposits
The September 30, 2007, carrying amount of deposits is as follows (in thousands):

		Governmental Activities	Business-Type Activities	Total
Cash				
Unrestricted	$	90	63	153
Cash held by trustee				
Unrestricted		4,017	--	4,017
Restricted		--	34,756	34,756
Pooled cash		430	876	1,306
Total deposits	$	4,537	35,695	40,232

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2007.

6 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2006, upon which the 2007 levy was based, was $60,512,328,889.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2007, 99.61% of the current tax levy (October 1, 2006) was collected. The statutory lien date is January 1.

The methods of property assessment and tax collection are determined by Texas statutes. The statutes provide for a property tax code, countywide appraisal districts, a State property tax board, and certain exemptions from taxation, such as intangible personal property, household goods, and family-owned automobiles.

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District and the Williamson County Appraisal District. The appraisal districts are required under the Property Tax Code to assess all real and personal property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every two years; however, the City may require more frequent reviews of appraised values at its own expense. The Travis Central Appraisal District has chosen to review the value of property every two years, while the Williamson County Appraisal District has chosen to review the value of property on an annual basis. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

The City is authorized to set tax rates on property within the city limits. However, if the effective tax rate, excluding tax rates for bonds, certificates of obligation, and other contractual obligations, as adjusted for new improvements and revaluation, exceeds the rate for the previous year by more than 8%, State statute allows qualified voters of the City to petition for an election to determine whether to limit the tax rate increase to no more than 8%.

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to $2.50 per $100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. Under the city charter, a limit on taxes levied for general governmental services, exclusive of payments of principal and interest on general obligation long-term debt, has been established at $1.00 per $100 assessed valuation. A practical limitation on taxes levied for debt service of $1.50 per $100 of assessed valuation is established by state statute and city charter limitations. Through contractual arrangements, Travis and Williamson Counties bill and collect property taxes for the City.

6 – PROPERTY TAXES, continued

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2007, was $.2760 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7240 per $100 assessed valuation, and could levy approximately $438,109,261 in additional taxes from the assessed valuation of $60,512,328,889 before the legislative limit is reached.

The City has reserved a portion of the taxes collected for lawsuits filed by certain taxpayers against the appraisal districts challenging assessed values in the government-wide financial statements.

7 – CAPITAL ASSETS AND INFRASTRUCTURE

The City has recorded capitalized interest for fiscal year 2007 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds	
Major fund:	
Airport	$ 1,478
Nonmajor enterprise funds:	
Convention Center	366
Drainage	1,168
Golf	16
Solid Waste Services	115
Transportation	6

Interest is not capitalized on governmental capital assets. In accordance with FASB Statement No. 71, interest is also not capitalized on electric and water and wastewater capital assets.

Capital asset balances as of September 30, 2007 (in thousands):

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	$ 261,328	364,811	626,139
Arts and treasures	5,153	1,390	6,543
Library collections	13,761	--	13,761
Total	280,242	366,201	646,443
Depreciable property, plant, and equipment in service			
Building and improvements	570,368	2,035,399	2,605,767
Equipment	152,248	5,120,246	5,272,494
Vehicles	81,723	114,315	196,038
Infrastructure	1,736,284	--	1,736,284
Total	2,540,623	7,269,960	9,810,583
Less accumulated depreciation for			
Building and improvements	(145,571)	(668,039)	(813,610)
Equipment	(70,835)	(2,048,831)	(2,119,666)
Vehicles	(50,221)	(62,601)	(112,822)
Infrastructure	(569,812)	--	(569,812)
Total	(836,439)	(2,779,471)	(3,615,910)
Net property, plant, and equipment in service	1,704,184	4,490,489	6,194,673
Other capital assets not depreciated			
Construction in progress	183,230	680,161	863,391
Nuclear fuel, net of amortization	--	27,622	27,622
Plant held for future use	--	27,783	27,783
Total capital assets	$ 2,167,656	5,592,256	7,759,912

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 240,388	20,940	--	261,328
Arts and treasures	5,029	124	--	5,153
Library collections	13,761	--	--	13,761
Total	259,178	21,064	--	280,242
Depreciable property, plant, and equipment in service				
Building and improvements	540,350	30,018	--	570,368
Equipment	134,344	18,317	(413)	152,248
Vehicles	71,672	10,467	(416)	81,723
Infrastructure	1,659,449	76,835	--	1,736,284
Total	2,405,815	135,637	(829)	2,540,623
Less accumulated depreciation for				
Building and improvements	(129,212)	(16,359)	--	(145,571)
Equipment	(54,154)	(17,028)	347	(70,835)
Vehicles	(43,369)	(7,156)	304	(50,221)
Infrastructure	(520,096)	(49,716)	--	(569,812)
Total	(746,831)	(90,259) (2)	651	(836,439)
Net property, plant, and equipment in service	1,658,984	45,378	(178)	1,704,184
Other capital assets not depreciated				
Construction in progress	181,342	97,446	(95,558)	183,230
Total capital assets	$ 2,099,504	163,888	(95,736)	2,167,656

(1) Increases and decreases do not include transfers (at net book value) between Governmental Activities.

(2) Depreciation expense was charged to functions as follows (in thousands):

Governmental activities:	
General government	$ 3,536
Public safety	11,940
Transportation, planning, and sustainability	42,647
Public health	1,414
Public recreation and culture	7,670
Urban growth management	13,829
Internal service funds	9,223
Total increases in accumulated depreciation	$ 90,259

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 40,469	19,193	--	59,662
Total	40,469	19,193	--	59,662
Depreciable property, plant, and equipment in service				
Building and improvements	661,898	2,340	(12,158)	652,080
Equipment	2,777,448	142,558	(60,781)	2,859,225
Vehicles	23,309	2,278	(267)	25,320
Total	3,462,655	147,176	(73,206)	3,536,625
Less accumulated depreciation for				
Building and improvements	(302,506)	(18,311)	9,913	(310,904)
Equipment	(1,236,557)	(95,357)	44,577	(1,287,337)
Vehicles	(14,802)	(1,498)	220	(16,080)
Total	(1,553,865)	(115,166) (1)	54,710	(1,614,321)
Net property, plant, and equipment in service	1,908,790	32,010	(18,496)	1,922,304
Other capital assets not depreciated				
Construction in progress	170,114	22,887	(954)	192,047
Nuclear fuel, net of amortization	29,284	--	(1,662)	27,622
Plant held for future use	27,783	--	--	27,783
Total capital assets	$ 2,176,440	74,090	(21,112)	2,229,418

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 115,166
Total increases in accumulated depreciation	$ 115,166

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 141,356	4,001	--	145,357
Total	141,356	4,001	--	145,357
Depreciable property, plant, and equipment in service				
Building and improvements	417,389	12,535	--	429,924
Equipment	1,892,156	274,914	(184)	2,166,886
Vehicles	21,557	4,314	(40)	25,831
Total	2,331,102	291,763	(224)	2,622,641
Less accumulated depreciation for				
Building and improvements	(133,228)	(12,861)	--	(146,089)
Equipment	(671,535)	(56,712)	102	(728,145)
Vehicles	(13,974)	(1,519)	56	(15,437)
Total	(818,737)	(71,092) (2)	158	(889,671)
Net property, plant, and equipment in service	1,512,365	220,671	(66)	1,732,970
Other capital assets not depreciated				
Construction in progress	569,945	147,201	(282,028)	435,118
Total capital assets	$ 2,223,666	371,873	(282,094)	2,313,445

(1) Increases and decreases do not include transfers (at net book value) between Water and Wastewater funds.

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 34,627
Wastewater	36,465
Total increases in accumulated depreciation	$ 71,092

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 58,632	29,018	--	87,650
Arts and treasures	778	--	--	778
Total	59,410	29,018	--	88,428
Depreciable property, plant, and equipment in service				
Building and improvements	615,985	25,451	--	641,436
Equipment	16,915	3,199	(213)	19,901
Vehicles	4,968	696	(146)	5,518
Total	637,868	29,346	(359)	666,855
Less accumulated depreciation for				
Building and improvements	(125,187)	(15,836)	--	(141,023)
Equipment	(5,932)	(1,518)	71	(7,379)
Vehicles	(2,412)	(368)	37	(2,743)
Total	(133,531)	(17,722) (1)	108	(151,145)
Net property, plant, and equipment in service	504,337	11,624	(251)	515,710
Other capital assets not depreciated				
Construction in progress	50,887	20,110	(54,694)	16,303
Total capital assets	$ 614,634	60,752	(54,945)	620,441

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 17,722
Total increases in accumulated depreciation	$ 17,722

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 54,799	17,343	--	72,142
Arts and treasures	612	--	--	612
Total	55,411	17,343	--	72,754
Depreciable property, plant, and equipment in service				
Building and improvements	310,677	1,282	--	311,959
Equipment	62,131	12,398	(295)	74,234
Vehicles	49,860	8,882	(1,096)	57,646
Total	422,668	22,562	(1,391)	443,839
Less accumulated depreciation for				
Building and improvements	(59,993)	(10,030)	--	(70,023)
Equipment	(22,121)	(3,858)	9	(25,970)
Vehicles	(23,443)	(4,930)	32	(28,341)
Total	(105,557)	(18,818) (2)	41	(124,334)
Net property, plant, and equipment in service	317,111	3,744	(1,350)	319,505
Other capital assets not depreciated				
Construction in progress	38,806	28,019	(30,132)	36,693
Total capital assets	$ 411,328	49,106	(31,482)	428,952

(1) Increases and decreases do not include transfers (at net book value) between nonmajor enterprise funds.

(2) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	$ 8,574
Other nonmajor enterprise funds	10,244
Total increases in accumulated depreciation	$ 18,818

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 295,256	69,555	--	364,811
Arts and treasures	1,390	--	--	1,390
Total	296,646	69,555	--	366,201
Depreciable property, plant, and equipment in service				
Building and improvements	2,005,949	41,608	(12,158)	2,035,399
Equipment	4,748,650	433,037	(61,441)	5,120,246
Vehicles	99,694	16,103	(1,482)	114,315
Total	6,854,293	490,748	(75,081)	7,269,960
Less accumulated depreciation for				
Building and improvements	(620,914)	(57,038)	9,913	(668,039)
Equipment	(1,936,145)	(157,445)	44,759	(2,048,831)
Vehicles	(54,631)	(8,315)	345	(62,601)
Total	(2,611,690)	(222,798) (2)	55,017	(2,779,471)
Net property, plant, and equipment in service	4,242,603	267,950	(20,064)	4,490,489
Other capital assets not depreciated				
Construction in progress	829,752	218,217	(367,808)	680,161
Nuclear fuel, net of amortization	29,284	--	(1,662)	27,622
Plant held for future use	27,783	--	--	27,783
Total capital assets	$ 5,426,068	555,722	(389,534)	5,592,256

(1) Increases and decreases do not include transfers (at net book value) between business-type activities.

(2) Depreciation expense was charged to functions as follows (in thousands):

Business-type activities:	
Electric	$ 115,166
Water	34,627
Wastewater	36,465
Airport	17,722
Convention Center	8,574
Other nonmajor enterprise funds	10,244
Total increases in accumulated depreciation	$ 222,798

8 – RETIREMENT PLANS

a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are Citywide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2006. Membership in the plans at December 31, 2006, is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	4,181	432	443	5,056
Current employees	8,055	1,455	974	10,484
Total	12,236	1,887	1,417	15,540

Each plan provides service retirement, death, disability, and withdrawal benefits. State law governs benefit and contribution provisions. Amendments may be made by the Legislature of the State of Texas.

Financial reports that include financial statements and supplementary information for each plan are publicly available at the locations shown below.

Plan	Address	Telephone
Employees' Retirement and Pension Fund	418 E. Highland Mall Blvd. Austin, Texas 78752 www.coaers.org	(512)458-2551
Police Officers' Retirement and Pension Fund	2520 S. IH 35, Ste. 205 Austin, Texas 78704 www.ausprs.org	(512)416-7672
Fire Fighters' Relief and Retirement Fund	4101 Parkstone Heights Dr., Ste. 270 Austin, Texas 78746 www.afrs.org	(512)454-9567

8 – RETIREMENT PLANS, continued

b -- Funding Policy

	City of Austin Employees' Retirement and Pension Fund	City of Austin Police Officers' Retirement and Pension Fund	Fire Fighters' Relief and Retirement Fund
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	8.0%	11.0%	15.7%
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

(1) The City contributes two-thirds of the cost of prior service benefit payments.

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2007, are as follows (in thousands):

		City Employees	Police Officers	Fire Fighters	Total
City	$	31,634	18,047	12,389	62,070
Employees		31,529	11,021	10,819	53,369
Total contributions	$	63,163	29,068	23,208	115,439

c -- Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of $79,602,000 for fiscal year ended September 30, 2007, was $17,532,000 more than the City's actual contributions. Three-year trend information is as follows (in thousands):

		City Employees	Police Officers	Fire Fighters	Total
City's Annual Pension Cost (APC):					
2005	$	32,438	15,451	10,746	58,635
2006		40,988	18,047	12,976	72,011
2007		49,818	18,047	11,737	79,602
Percentage of APC contributed:					
2005		82%	100%	100%	N/A
2006		73%	100%	92%	N/A
2007		63%	100%	106%	N/A
Net Pension Obligation:					
2005	$	11,761	--	--	11,761
2006		24,061	--	1,609	25,670
2007		43,334	--	1,737	45,071

8 – RETIREMENT PLANS, continued
c -- Annual Pension Cost and Net Pension Obligation, continued

The Net Pension Obligation associated with the City Employees Retirement and Pension Fund and the Fire Fighters' Relief and Retirement Fund for the fiscal year ended December 31, 2006 (in thousands):

	City Employees	Fire Fighters	Total
Annual required contribution	$ 49,391	13,346	62,737
Interest in net pension obligation	1,865	--	1,865
Adjustment to annual required contribution	(1,438)	(1,609)	(3,047)
Annual pension cost	49,818	11,737	61,555
Employer contributions	(30,545)	(11,609)	(42,154)
Change in net pension obligation	19,273	128	19,401
Beginning net pension obligation	24,061	1,609	25,670
Net pension obligation	$ 43,334	1,737	45,071

The latest actuarial valuations were completed as of December 31, 2005. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	3.5%	4%	3.15%
Projected Annual Salary Increases	5% to 6%	6.8% average	8.0%
Post retirement benefit increase	None	None	1%
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	30 years	30 years

9 – SELECTED REVENUES
a -- Major enterprise funds

Electric and Water and Wastewater
The Texas Public Utility Commission has jurisdiction over electric utility wholesale transmission rates. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations and a debt service coverage approach.

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. As of September 30, City management has elected not to enter the retail market, as allowed by State law.

Electric rates include a fixed rate and a fuel recovery cost-adjustment factor that allows recovery of coal, gas, purchased power, and other fuel costs. If actual fuel costs differ from amounts billed to customers, deferred or unbilled revenues are recorded by the electric utility. Any over- or under-collections are applied to the cost-adjustment factor. The fuel factor is revised annually on a calendar year basis or when over- or under-recovery is more than 10% of expected fuel costs.

Airport
The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2007, the Airport Fund revenues included minimum concession guarantees of $7,774,303.

The following is a schedule by year of minimum future rentals on noncancelable operating leases for terms of up to thirty years for the Airport Fund as of September 30, 2007 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Payments
2008	$ 6,719
2009	4,533
2010-2014	811
2015-2019	392
2020-2024	392
2025-2029	392
2030-2034	65
Totals	$ 13,304

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period May 1, 2006, through April 30, 2009. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index – Urban Wage Earners and Clerical Workers, U.S. Owner Average, (CPI) published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

10 – DEBT AND NON-DEBT LIABILITIES
a -- Long-Term Liabilities

The following is a summary of long-term obligations. Balances at September 30, 2007 (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 659,761	16,593	676,354
Certificates of obligation	94,919	47,413	142,332
Contractual obligations	32,227	29,154	61,381
Other tax supported debt	--	7,768	7,768
General obligation bonds and other tax supported debt total	786,907	100,928	887,835
Commercial paper	--	309,003	309,003
Revenue notes	--	28,000	28,000
Revenue bonds	--	3,191,180	3,191,180
Contract revenue bonds	--	2,423	2,423
Capital lease obligations	475	4,572	5,047
Debt service requirements total	787,382	3,636,106	4,423,488
Other long-term obligations			
Accrued compensated absences	92,102	24,000	116,102
Claims payable	22,221	--	22,221
Pension obligation payable	24,022	21,049	45,071
Accrued landfill closure and postclosure costs	--	10,075	10,075
Decommissioning expense payable	--	148,763	148,763
Deferred credits and other liabilities	76,476	604,043	680,519
	214,821	807,930	1,022,751
Total long-term obligations	$ 1,002,203	4,444,036	5,446,239

This schedule excludes select current liabilities of $61,620 for governmental activities and $211,072 for business-type activities and long-term interest payable of $232,175 for business-type activities.

Payments on bonds for governmental activities will be made in the general obligation debt service funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, and internal service funds. Claims payable will be liquidated by internal service funds. Deferred revenue and other liabilities that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, general governmental capital improvement projects funds, and internal service funds.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all limitations and restrictions.

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included in governmental activities.

10 - DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term Liabilities, continued

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2007 are (in thousands):

Description	September 30, 2006	Increases	Decreases	September 30, 2007	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 709,172	--	(49,411)	659,761	45,727
Certificates of obligation, net	101,334	--	(6,415)	94,919	6,733
Contractual obligations, net	37,229	--	(5,002)	32,227	4,714
General obligation bonds and other tax supported debt total	847,735	--	(60,828)	786,907	57,174
Capital lease obligations	514	--	(39)	475	159
Debt service requirements total	848,249	--	(60,867)	787,382	57,333
Other long-term obligations					
Accrued compensated absences	77,393	14,833	(124)	92,102	39,404
Claims payable	21,209	9,805	(8,793)	22,221	12,030
Pension obligation payable	13,912	10,110	--	24,022	--
Deferred credits and other liabilities	79,155	3,659	(6,338)	76,476	58,796
Governmental activities total	1,039,918	38,407	(76,122)	1,002,203	167,563
Business-type activities:					
Electric activities					
General obligation bonds, net	1,293	--	(62)	1,231	12
Contractual obligations	719	--	(202)	517	140
General obligation bonds and other tax supported debt total	2,012	--	(264)	1,748	152
Commercial paper notes, net	54,326	95,615	--	149,941	--
Revenue bonds, net	1,260,174	280,907	(373,782)	1,167,299	89,185
Capital lease obligations	3,253	1	(2,012)	1,242	30
Debt service requirements total	1,319,765	376,523	(376,058)	1,320,230	89,367
Other long-term obligations					
Accrued compensated absences	9,644	1,205	(33)	10,816	8,471
Decommissioning expense payable	134,664	14,099	--	148,763	--
Pension obligation payable	5,254	4,128	--	9,382	--
Deferred credits and other liabilities	93,578	94,282	(65,368)	122,492	46,489
Electric activities total	1,562,905	490,237	(441,459)	1,611,683	144,327
Water and Wastewater activities					
General obligation bonds, net	3,810	--	(1,076)	2,734	739
Contractual obligations, net	10,470	55	(1,551)	8,974	1,668
Other tax supported debt, net	8,405	--	(637)	7,768	594
General obligation bonds and other tax supported debt total	22,685	55	(3,264)	19,476	3,001
Commercial paper notes, net	185,632	107,630	(134,200)	159,062	--
Revenue bonds, net	1,378,835	135,488	(40,095)	1,474,228	60,394
Contract revenue bonds, net	3,134	--	(711)	2,423	750
Capital lease obligations	2,566	--	(1,239)	1,327	1,327
Debt service requirements total	1,592,852	243,173	(179,509)	1,656,516	65,472
Other long-term obligations					
Accrued compensated absences	4,871	2,447	(1,945)	5,373	4,568
Pension obligation payable	2,683	2,058	--	4,741	--
Deferred credits and other liabilities	460,117	12,122	(320)	471,919	13,242
Water and Wastewater activities total	2,060,523	259,800	(181,774)	2,138,549	83,282

(1) Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for these funds are included in governmental activities.

10 - DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term Liabilities, continued

Business-type activities (continued):

Description	September 30, 2006	Increases	Decreases	September 30, 2007	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	386	--	(52)	334	23
Contractual obligations	12	--	(12)	--	--
General obligation bonds and other tax supported debt total	398	--	(64)	334	23
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	338,578	--	(8,743)	329,835	11,780
Capital lease obligations	149	2,320	(468)	2,001	446
Debt service requirements total	367,125	2,320	(9,275)	360,170	12,249
Other long-term obligations					
Accrued compensated absences	1,020	293	--	1,313	1,146
Pension obligation payable	857	621	--	1,478	-
Deferred credits and other liabilities	3,333	2,599	(4,086)	1,846	988
Airport activities total	372,335	5,833	(13,361)	364,807	14,383
Nonmajor activities					
General obligation bonds, net	13,307	--	(1,013)	12,294	1,220
Certificates of obligation, net	49,760	--	(2,347)	47,413	2,373
Contractual obligations	22,313	96	(2,746)	19,663	3,504
General obligation bonds and other tax supported debt total	85,380	96	(6,106)	79,370	7,097
Revenue bonds, net	220,409	--	(591)	219,818	3,440
Capital lease obligations	16	--	(14)	2	2
Debt service requirements total	305,805	96	(6,711)	299,190	10,539
Other long-term obligations					
Accrued compensated absences	5,428	1,079	(9)	6,498	4,691
Accrued landfill closure and postclosure costs	8,379	1,696	--	10,075	1,265
Pension obligation payable	2,964	2,484	--	5,448	--
Deferred credits and other liabilities	2,931	5,446	(591)	7,786	3,564
Nonmajor activities total	325,507	10,801	(7,311)	328,997	20,059
Total business-type activities					
General obligation bonds, net	18,796	--	(2,203)	16,593	1,994
Certificates of obligation, net	49,760	--	(2,347)	47,413	2,373
Contractual obligations, net	33,514	151	(4,511)	29,154	5,312
Other tax supported debt, net	8,405	--	(637)	7,768	594
General obligation bonds and other tax supported debt total	110,475	151	(9,698)	100,928	10,273
Commercial paper notes, net	239,958	203,245	(134,200)	309,003	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,197,996	416,395	(423,211)	3,191,180	164,799
Contract revenue bonds	3,134	--	(711)	2,423	750
Capital lease obligations	5,984	2,321	(3,733)	4,572	1,805
Debt service requirements total	3,585,547	622,112	(571,553)	3,636,106	177,627
Other long-term obligations					
Accrued compensated absences	20,963	5,024	(1,987)	24,000	18,876
Accrued landfill closure and postclosure costs	8,379	1,696	--	10,075	1,265
Decommissioning expense payable	134,664	14,099	--	148,763	--
Pension obligation payable	11,758	9,291	--	21,049	--
Deferred credits and other liabilities	559,959	114,449	(70,365)	604,043	64,283
Business-type activities total	4,321,270	766,671	(643,905)	4,444,036	262,051
Total long-term liabilities	$ 5,361,188	805,078	(720,027)	5,446,239	429,614

This schedule excludes current liabilities of $61,620 for governmental activities and $211,072 for business-type activities and long-term interest payable of $232,175 for business-type activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued
b -- Governmental Activities Long-Term Liabilities

General Obligation Bonds -- General obligation debt is collateralized by the full faith and credit of the City. The City intends to retire its general obligation debt, plus interest, from future ad valorem tax levies, and is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. General obligation debt issued to finance capital assets of enterprise funds is reported as an obligation of these enterprise funds, although the funds are not obligated by the applicable bond indentures to repay any portion of principal and interest on outstanding general obligation debt. However, the City intends for the enterprise funds to meet the debt service requirements from program revenues.

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2007, including those reported in certain proprietary funds (in thousands):

Series	Date Issued	Original Amount Issue	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
Series 1993	February 1993	$ 71,600	7,615	599	(1)	5.75%	9/1/2008-2009
Series 1996	October 1996	30,550	4,590	417	(1)	6.00%	9/1/2008-2009
Series 1997	October 1997	2,120	215	16	(1)	4.90 - 5.00%	9/1/2008-2009
Series 1998	January 1998	110,300	85,445	19,242	(1)	4.60 - 5.25%	9/1/2008-2016
Assumed MUD Debt	December 1997	33,680	8,645	2,864	(3)(4)	4.40 - 10.50%	11/15/2007-2017
Series 1998	October 1998	13,430	9,690	3,409	(1)	4.40 - 7.13%	9/1/2008-2018
Series 1998	October 1998	22,770	11,920	4,164	(1)	4.30 - 4.75%	9/1/2008-2018
Series 1999	October 1999	51,100	3,136	324	(1)	4.88 - 5.25%	9/1/2008-2009
Series 1999	October 1999	5,590	1,060	138	(1)	5.00 - 5.25%	9/1/2008-2011
Series 2000	October 2000	52,930	19,770	7,157	(1)	4.60 - 6.00%	9/1/2008-2017
Series 2000	October 2000	6,060	2,065	442	(1)	5.00 - 5.25%	9/1/2008-2014
Series 2001	June 2001	123,445	33,030	7,666	(1)	4.75 - 5.50%	9/1/2008-2022
Series 2001	October 2001	79,650	44,970	19,404	(1)	4.00 - 5.25%	9/1/2008-2021
Series 2001	October 2001	2,650	660	26	(2)	3.75 - 3.88%	11/1/2007-2008
Series 2001	October 2001	65,335	45,600	14,094	(1)	4.38 - 5.25%	9/1/2008-2021
Series 2002	July 2002	12,190	11,440	2,991	(1)	3.50 - 5.00%	3/1/2008-2017
Series 2002	July 2002	2,495	925	46	(1)	4.63 - 5.00%	3/1/2008-2009
Series 2002	September 2002	99,615	89,400	35,939	(1)	3.25 - 5.00%	9/1/2008-2022
Series 2002	September 2002	8,690	3,470	174	(2)	2.80 - 3.40%	11/1/2007-2009
Series 2002	September 2002	34,095	23,975	9,108	(1)	3.00 - 5.38%	9/1/2008-2022
Series 2003	June 2003	62,585	28,720	4,260	(1)	5.00%	9/1/2008-2013
Series 2003	September 2003	68,855	64,195	28,877	(1)	3.75 - 5.00%	9/1/2008-2023
Series 2003A	September 2003	2,530	1,835	321	(1)	4.00 - 5.00%	9/1/2008-2013
Series 2003	September 2003	4,450	3,855	1,642	(1)	4.00 - 4.80%	9/1/2008-2023
Series 2003	September 2003	8,610	4,640	294	(2)	2.38 - 3.38%	11/1/2007-2010
Series 2004	September 2004	67,835	65,270	28,890	(1)	3.00 - 5.00%	9/1/2008-2024
Series 2004A	September 2004	2,430	2,020	413	(1)	4.00 - 4.75%	9/1/2008-2014
Series 2004	September 2004	25,000	22,560	11,162	(1)	3.00 - 5.00%	9/1/2008-2024
Series 2004	September 2004	21,830	15,120	1,214	(2)	2.20 - 3.35%	11/1/2007-2011
Series 2005	March 2005	145,345	145,345	59,629	(1)	5.00%	9/1/2008-2020
Series 2005	September 2005	19,535	19,535	9,091	(1)	3.50 - 5.00%	9/1/2008-2025
Series 2005	September 2005	7,185	6,750	3,047	(1)	3.50 - 6.50%	9/1/2008-2025
Series 2005	September 2005	14,940	12,040	1,279	(2)	3.00 - 3.75%	11/1/2007-2012
Series 2006	September 2006	31,585	31,585	20,838	(1)	4.00 - 5.38%	9/1/2009-2026
Series 2006	September 2006	24,150	23,420	11,526	(1)	4.00 - 5.00%	9/1/2008-2026
Series 2006	September 2006	14,120	13,335	1,982	(2)	4.00 - 4.25%	11/1/2007-2013
Series 2006	September 2006	12,000	12,000	6,261	(1)(5)	4.00 - 6.00%	9/1/2009-2026
			$ 879,846				

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Includes Water and Wastewater Fund principal of $7,808 and interest of $2,607.
(5) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

10 – DEBT AND NON-DEBT LIABILITIES, continued
b -- Governmental Activities Long-Term Liabilities, continued

General obligation bonds authorized and unissued amounted to $642,335,000 at September 30, 2007. Bond ratings at September 30, 2007, were Aa1 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's), and AA+ (Fitch).

c -- Business-Type Activities Long-Term Liabilities

Utility Debt -- The City has previously issued combined debt for the Electric and Water and Wastewater utilities. The City began issuing separate debt for electric and water and wastewater activities in 2000. The following paragraphs describe both combined and separate debt.

Combined Utility Systems Debt -- General - The City's Electric Fund and Water and Wastewater Fund comprise the combined utility systems, which issue combined utility systems revenue bonds to finance capital projects. Principal and interest on these bonds are payable solely from the combined net revenues of the Electric Fund and Water and Wastewater Fund.

The total combined utility systems revenue bond obligations at September 30, 2007, exclusive of discounts, premiums, and loss on refundings consists of $417,288,752 prior lien bonds and $248,964,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $594,082,479 at September 30, 2007. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2007, for the prior lien and subordinate lien bonds were, respectively, A1 and A1 (Moody's Investor Services, Inc.), AA- and A+ (Standard & Poor's), and AA- and AA- (Fitch).

Combined Utility Systems Debt -- Revenue Bond Refunding Issues - The combined utility systems have refunded various issues of revenue bonds, notes, and certificates of obligation through refunding revenue bonds. Principal and interest on these refunding bonds are payable solely from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund. The prior lien bonds are subordinate only to the prior lien revenue bonds outstanding at the time of issuance, while the subordinate lien bonds are subordinate to prior lien revenue bonds and to subordinate lien revenue bonds outstanding at the time of issuance.

Some of these bonds are callable prior to maturity at the option of the City. The term bonds are subject to a mandatory redemption prior to the maturity dates as defined in the respective official statements.

The net proceeds of each of the refunding bond issuances were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service. As a result, the refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the financial statements. The accounting gains and losses due to the advance refunding of debt have been deferred and are being amortized over the life of the refunding bonds by the straight-line method. However, a gain or loss on refunded bonds is recognized when funds from current operations are used.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1990B Refunding	February 1990	$ 236,009	3,668	20,502 (1)	7.35%	11/15/2014-2017
1992 Refunding	March 1992	265,806	30,116	78,049 (1)	6.80 - 6.85%	11/15/2009-2012
1992A Refunding	May 1992	351,706	78,971	112,368 (1)	6.70 - 12.50%	11/15/2007-2011
1993 Refunding	February 1993	203,166	54,916	36,749 (1)	6.20 - 6.30%	11/15/2007-2014
1993A Refunding	June 1993	263,410	12,814	19,601 (1)	5.60 - 5.95%	05/15/2008-2010
1994 Refunding	October 1994	142,559	26,894	96,961 (1)	6.60%	05/15/2017-2019
1996A Refunding	September 1996	198,260	41,475	2,709 (1)	5.00 - 5.13%	11/15/2007-2009
1997 Refunding	August 1997	227,215	66,220	24,945 (1)	4.80 - 5.13%	11/15/2008-2020
1998 Refunding	August 1998	180,000	102,215	21,599 (1)	6.50 -6.75%	11/15/2007-2012
1998 Refunding	November 1998	139,965	139,070	96,926 (1)	4.00 - 5.25%	05/15/2008-2025
1998A Refunding	November 1998	105,350	102,944	82,198 (1)	4.25 - 5.00%	05/15/2008-2028
1998B	November 1998	10,000	6,950	1,475 (1)	3.10 - 3.75%	11/15/2007-2017
			$ 666,253			

(1) Interest is paid semiannually on May 15 and November 15.

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2007, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes are in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2007, the Electric Fund had outstanding commercial paper notes of $107,257,000 and the Water and Wastewater Fund had $159,062,000 of commercial paper notes outstanding. Interest rates on the notes range from 3.45 % to 3.97%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed $50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2007, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

The taxable notes are issued in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the taxable notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2007, the Electric Fund had outstanding taxable notes of $42,684,000 (net of discount of $126,503), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 5.05% to 5.6%. The City intends to refinance maturing commercial paper notes by issuing long-term debt.

Electric Utility System Revenue Debt -- General - The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these obligations are used only to fund electric capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Electric Fund.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Electric Utility Systems Revenue Debt -- Revenue Bond Refunding Issues – In November 2006, the City issued $137,800,000 of Electric Utility System Revenue Refunding Bonds, Series 2006A. Proceeds from the bond refunding were used to refund Combined Utility System Revenue Refunding Bonds, Series 1996A in the amount of $74,585,000; Electric Utility System Revenue Refunding Bonds, Series 2001 in the amount of $48,500,000; and Electric Utility System Revenue Refunding Bonds, Series 2003 in the amount of $18,800,000. The debt service requirements on the refunding bonds were $197,506,917, with an interest rate of 5%. The City realized an economic gain of $6,277,592 on this transaction. The change in net cash flows that resulted was a decrease of $8,024,020. An accounting loss of $3,864,566, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on this refunding.

In August 2007, the City issued $146,635,000 of Electric Utility System Revenue Refunding Bonds, Series 2007. Proceeds from the bond refunding were used to refund Combined Utility System Revenue Refunding Bonds, Series 1997 in the amount of $151,990,000. The debt service requirements on the refunding bonds were $199,169,492, with an interest rate of 5%. The City realized an economic gain of $8,784,770 on this transaction. The change in net cash flows that resulted was a decrease of $10,068,568. An accounting loss of $16,568,803, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on this refunding.

Bond ratings at September 30, 2007, were A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2001 Refunding	February 2001	$ 126,700	76,200	70,117 (1)	5.00 - 7.25%	11/15/2007-2030
2002 Refunding	March 2002	74,750	66,570	17,387 (1)	3.75 - 5.50%	11/15/2007-2014
2002A Refunding	August 2002	172,880	115,800	37,729 (1)	4.00 - 5.50%	11/15/2007-2016
2003 Refunding	March 2003	182,100	158,800	102,561 (1)	3.00 - 5.25%	11/15/2007-2028
2006 Refunding	June 2006	150,000	150,000	132,832 (1)	4.00 - 5.00%	11/15/2008-2035
2006A Refunding	November 2006	137,800	137,800	55,688 (1)	5.00%	11/15/2009-2022
2007 Refunding	August 2007	146,635	146,635	52,534 (1)	5.00%	11/15/2007-2020
			$ 851,805			

(1) Interest is paid semiannually on May 15 and November 15.

Water and Wastewater System Revenue Debt -- General - The City is authorized by ordinance to issue water and wastewater system revenue obligations. Proceeds from these obligations are used only to fund water and wastewater capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Water and Wastewater Fund.

Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues – In December 2006, the City issued $135,000,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2006A. Proceeds from the bond refunding were used to refund $134,200,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds were $250,027,850, with interest rates ranging from 3.5% to 5%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

Bond ratings at September 30, 2007, were Aa3 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
North Austin MUD #1, 2003 RFD	August 2003	$ 4,510	2,445	120	(1)	3.00 - 3.25%	11/15/2007-2009
2000 Refunding	June 2000	100,000	6,200	826	(1)	6.50%	11/15/2007-2010
2001A Refunding	June 2001	152,180	87,960	79,728	(1)	4.38 - 6.00%	11/15/2007-2031
2001B Refunding	June 2001	73,200	42,135	38,562	(1)	5.13 - 6.00%	11/15/2007-2031
2001C Refunding	December 2001	95,380	40,805	6,201	(1)	4.00 - 5.38%	11/15/2007-2015
2002A Refunding	August 2002	139,695	99,440	31,642	(1)	4.00 - 5.50%	11/15/2007-2016
2003 Refunding	March 2003	121,500	89,300	61,099	(1)	2.50 - 5.00%	11/15/2007-2028
2004 Refunding	August 2004	132,475	116,575	44,686	(2)	3.93%	11/15/2007-2024
2004A Refunding	October 2004	165,145	165,145	112,323	(1)	5.00%	11/15/2007-2029
2005 Refunding	November 2005	198,485	198,485	126,654	(1)	4.00 - 5.00%	05/15/2012-2030
2005A Refunding	June 2005	142,335	140,890	112,281	(1)	4.00 - 5.00%	11/15/2007-2035
2006 Refunding	August 2006	63,100	62,150	31,422	(1)	5.00%	11/15/2007-2025
2006A Refunding	December 2006	135,000	135,000	112,013	(1)	3.50 - 5.00%	11/15/2008-2036
			$ 1,186,530				

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate.

Airport -- Revenue Bonds - The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2007, the total airport system obligation for prior lien bonds is $345,545,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $161,343,498 at September 30, 2007. Revenue bonds authorized and unissued amount to $735,795,000.

Bond ratings at September 30, 2007, for the prior lien bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2003 Refunding	December 2003	$ 54,250	54,245	22,325	(1)	3.00 - 5.25%	11/15/2007-2018
2005 Refunding	August 2005	306,225	291,300	139,018	(2)	4.37%	11/15/2007-2025
			$ 345,545				

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Subsequent to year-end, the rates have ranged from 3.9% on October 25, 2007 to 10.5% on March 31, 2008.

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue airport system variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A, adopted by the City Council on February 5, 1998. At September 30, 2007, the airport system had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $10,355,359, including accrued interest, at September 30, 2007, and was restricted within the airport system. During fiscal year 2007, interest rates on the notes ranged from 3.47% to 4.09%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 15%. Subsequent to year-end, the rates have ranged from 1.26% on October 3, 2007 to 3.67% on March 31, 2008. Principal and interest on the notes are payable from the net revenues of the airport system.

The bond rating at September 30, 2007, for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Nonmajor fund:
Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2007, the total convention center obligation for prior and subordinate lien bonds is $234,400,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $125,215,817 at September 30, 2007. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2007.

Bond ratings at September 30, 2007, for the revenue bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1999A	June 1999	$ 25,000	23,130	17,306 (1)	4.90 - 5.50%	11/15/2007-2029
1999	November 1999	40,000	2,545	265 (1)	6.75%	11/15/2007-2009
2004 Refunding	February 2004	52,715	52,715	18,583 (1)	2.00 - 5.00%	11/15/2007-2019
2005 Refunding	May 2005	36,720	36,720	27,072 (1)	3.30 - 5.00%	11/15/2011-2029
2005 Refunding	August 2005	119,290	119,290	61,990 (2)	3.85%	11/15/2009-2029
			$ 234,400			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate.

d -- Debt Service Requirements

Governmental Activities (in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2008	$ 45,727	30,770	6,733	4,344	4,714	1,121
2009	44,979	28,630	7,103	4,026	5,258	991
2010	47,432	26,449	6,616	3,688	4,957	828
2011	48,203	24,234	6,970	3,378	4,153	670
2012	47,240	21,982	7,200	3,052	2,629	534
2013-2017	214,419	77,812	29,634	10,773	3,335	2,014
2018-2022	161,266	30,548	22,042	4,894	3,615	1,301
2023-2027	41,614	4,124	8,606	914	3,563	411
	650,880	244,549	94,904	35,069	32,224	7,870
Less: Unamortized bond discounts	(748)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(9,106)	--	--	--	--	--
Add: Unamortized bond premiums	18,735	--	15	--	3	--
Net debt service requirements	659,761	244,549	94,919	35,069	32,227	7,870

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Governmental Debt Service Requirements Principal	Total Governmental Debt Service Requirements Interest	Total Governmental Debt Service Requirements Total
2008	159	12	57,333	36,247	93,580
2009	316	5	57,656	33,652	91,308
2010	--	--	59,005	30,965	89,970
2011	--	--	59,326	28,282	87,608
2012	--	--	57,069	25,568	82,637
2013-2017	--	--	247,388	90,599	337,987
2018-2022	--	--	186,923	36,743	223,666
2023-2027	--	--	53,783	5,449	59,232
	475	17	778,483	287,505	1,065,988
Less: Unamortized bond discounts	--	--	(748)	--	(748)
Unamortized gain(loss) on bond refundings	--	--	(9,106)	--	(9,106)
Add: Unamortized bond premiums	--	--	18,753	--	18,753
Net debt service requirements	$ 475	17	787,382	287,505	1,074,887

d -- Debt Service Requirements

Electric Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Commercial Paper Notes (1)	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 12	58	140	14	150,068	927
2009	18	57	146	11	--	--
2010	53	56	152	6	--	--
2011	63	54	79	1	--	--
2012	69	50	--	--	--	--
2013-2017	668	167	--	--	--	--
2018-2022	275	24	--	--	--	--
	1,158	466	517	32	150,068	927
Less: Unamortized bond discount	(3)	--	--	--	(127)	--
Add: Unamortized bond premium	76	--	--	--	--	--
Net debt service requirements	1,231	466	517	32	149,941	927

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Electric Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2008	89,185	63,647	30	61	239,435	64,707	304,142
2009	78,773	82,114	31	60	78,968	82,242	161,210
2010	64,739	87,190	32	58	64,976	87,310	152,286
2011	73,765	79,632	34	57	73,941	79,744	153,685
2012	74,413	73,432	36	55	74,518	73,537	148,055
2013-2017	384,531	171,215	207	245	385,406	171,627	557,033
2018-2022	159,553	95,646	266	187	160,094	95,857	255,951
2023-2027	152,736	51,121	341	111	153,077	51,232	204,309
2028-2032	95,100	17,908	265	22	95,365	17,930	113,295
2033-2037	34,001	3,500	--	--	34,001	3,500	37,501
	1,206,796	725,405	1,242	856	1,359,781	727,686	2,087,467
Less: Unamortized bond discounts	(5,016)	--	--	--	(5,146)	--	(5,146)
Unamortized gain(loss) on bond refundings	(81,823)	--	--	--	(81,823)	--	(81,823)
Add: Unamortized bond premiums	47,342	--	--	--	47,418	--	47,418
Net debt service requirements	$ 1,167,299	725,405	1,242	856	1,320,230	727,686	2,047,916

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing issuing long-term debt.

e - Debt Service Requirements

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 739	232	1,668	305	594	401
2009	471	194	1,633	250	532	374
2010	589	170	1,550	196	564	348
2011	562	138	1,557	141	596	319
2012	527	108	1,309	84	627	288
2013-2017	1,223	221	1,216	48	4,274	846
2018-2022	335	38	--	--	621	31
	4,446	1,101	8,933	1,024	7,808	2,607
Less: Unamortized bond discounts	(21)	--	--	--	(40)	--
Unamortized gain(loss) on bond refundings	(1,911)	--	--	--	--	--
Add: Unamortized bond premiums	220	--	41	--	--	--
Net debt service requirements	2,734	1,101	8,974	1,024	7,768	2,607

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds		Municipal Utility District Contract Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	159,062	1,322	60,394	70,764	750	64
2009	--	--	58,309	77,978	780	41
2010	--	--	51,023	85,189	915	15
2011	--	--	47,174	80,904	--	--
2012	--	--	54,440	77,772	--	--
2013-2017	--	--	392,288	306,304	--	--
2018-2022	--	--	269,331	250,131	--	--
2023-2027	--	--	302,541	102,567	--	--
2028-2032	--	--	197,551	35,983	--	--
2033-2037	--	--	62,296	7,370	--	--
	159,062	1,322	1,495,347	1,094,962	2,445	120
Less: Unamortized bond discounts	--	--	(9,581)	--	(11)	--
Unamortized gain(loss) on bond refundings	--	--	(54,780)	--	(26)	--
Add: Unamortized bond premiums	--	--	43,242	--	15	--
Net debt service requirements	$ 159,062	1,322	1,474,228	1,094,962	2,423	120

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

e - Debt Service Requirements

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations		Total Water and Wastewater Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2008	$ 1,327	53	224,534	73,141	297,675
2009	--	--	61,725	78,837	140,562
2010	--	--	54,641	85,918	140,559
2011	--	--	49,889	81,502	131,391
2012	--	--	56,903	78,252	135,155
2013-2017	--	--	399,001	307,419	706,420
2018-2022	--	--	270,287	250,200	520,487
2023-2027	--	--	302,541	102,567	405,108
2028-2032	--	--	197,551	35,983	233,534
2033-2037	--	--	62,296	7,370	69,666
	1,327	53	1,679,368	1,101,189	2,780,557
Less: Unamortized bond discounts	--	--	(9,653)	--	(9,653)
Unamortized gain(loss) on bond refundings	--	--	(56,717)	--	(56,717)
Add: Unamortized bond premiums	--	--	43,518	--	43,518
Net debt service requirements	$ 1,327	53	1,656,516	1,101,189	2,757,705

d -- Debt Service Requirements

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Revenue Notes (1)		Revenue Bonds	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2008	$ 23	16	--	1,106	11,780	15,050
2009	16	15	--	1,106	12,325	14,533
2010	23	14	--	1,106	12,910	13,982
2011	26	13	--	1,106	13,515	13,406
2012	28	11	--	1,106	14,165	12,791
2013-2017	145	34	--	5,530	82,720	53,492
2018-2022	54	5	28,000	551	105,105	30,933
2023-2027	--	--	--	--	93,025	7,156
	315	108	28,000	11,611	345,545	161,343
Less: Unamortized bond discounts	(1)	--	--	--	(1,159)	--
Unamortized gain(loss) on bond refundings	1	--	--	--	(17,674)	--
Add: Unamortized bond premiums	19	--	--	--	3,123	--
Net debt service requirements	334	108	28,000	11,611	329,835	161,343

Fiscal Year Ended September 30	Capital Lease Obligations		Total Airport Debt Service Requirements		
	Principal	**Interest**	**Principal**	**Interest**	**Total**
2008	446	65	12,249	16,237	28,486
2009	459	48	12,800	15,702	28,502
2010	476	32	13,409	15,134	28,543
2011	493	14	14,034	14,539	28,573
2012	127	1	14,320	13,909	28,229
2013-2017	--	--	82,865	59,056	141,921
2018-2022	--	--	133,159	31,489	164,648
2023-2027	--	--	93,025	7,156	100,181
	2,001	160	375,861	173,222	549,083
Less: Unamortized bond discounts	--	--	(1,160)	--	(1,160)
Unamortized gain(loss) on bond refundings	--	--	(17,673)	--	(17,673)
Add: Unamortized bond premiums	--	--	3,142	--	3,142
Net debt service requirements	$ 2,001	160	360,170	173,222	533,392

(2) These are variable rate notes with an assumed rate of 3.95%.

d -- Debt Service Requirements

Nonmajor Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 1,220	632	2,373	2,165	3,504	678
2009	1,064	570	2,497	2,073	3,658	562
2010	1,604	515	2,204	1,975	3,411	435
2011	1,450	434	2,305	1,891	3,141	318
2012	1,249	363	2,250	1,782	2,963	200
2013-2017	4,736	919	15,901	6,968	2,914	109
2018-2022	1,230	114	15,123	3,147	--	--
2023-2027	--	--	3,864	270	--	--
	12,553	3,547	46,517	20,271	19,591	2,302
Less: Unamortized bond discounts	(41)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(914)	--	--	--	--	--
Add: Unamortized bond premiums	696	--	896	--	72	--
Net debt service requirements	12,294	3,547	47,413	20,271	19,663	2,302

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2008	3,440	10,046	2	--	10,539	13,521	24,060
2009	4,720	9,901	--	--	11,939	13,106	25,045
2010	7,935	9,627	--	--	15,154	12,552	27,706
2011	8,265	9,314	--	--	15,161	11,957	27,118
2012	9,170	8,965	--	--	15,632	11,310	26,942
2013-2017	55,985	37,815	--	--	79,536	45,811	125,347
2018-2022	57,560	24,330	--	--	73,913	27,591	101,504
2023-2027	51,180	13,121	--	--	55,044	13,391	68,435
2028-2032	36,145	2,097	--	--	36,145	2,097	38,242
	234,400	125,216	2	--	313,063	151,336	464,399
Less: Unamortized bond discounts	(1,069)	--	--	--	(1,110)	--	(1,110)
Unamortized gain(loss) on bond refundings	(18,147)	--	--	--	(19,061)	--	(19,061)
Add: Unamortized bond premiums	4,634	--	--	--	6,298	--	6,298
Net debt service requirements	$ 219,818	125,216	2	--	299,190	151,336	450,526

d -- Debt Service Requirements

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 1,994	938	2,373	2,165	5,312	997
2009	1,569	836	2,497	2,073	5,437	823
2010	2,269	755	2,204	1,975	5,113	637
2011	2,101	639	2,305	1,891	4,777	460
2012	1,873	532	2,250	1,782	4,272	284
2013-2017	6,772	1,341	15,901	6,968	4,130	157
2018-2022	1,894	181	15,123	3,147	--	--
2023-2027	--	--	3,864	270	--	--
	18,472	5,222	46,517	20,271	29,041	3,358
Less: Unamortized bond discounts	(66)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(2,824)	--	--	--	--	--
Add: Unamortized bond premiums	1,011	--	896	--	113	--
Net debt service requirements	16,593	5,222	47,413	20,271	29,154	3,358

Fiscal Year Ended September 30	Tax Supported Debt		Commercial Paper Notes (1)		Revenue Notes (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	594	401	309,130	2,249	--	1,106
2009	532	374	--	--	--	1,106
2010	564	348	--	--	--	1,106
2011	596	319	--	--	--	1,106
2012	627	288	--	--	--	1,106
2013-2017	4,274	846	--	--	--	5,530
2018-2022	621	31	--	--	28,000	551
	7,808	2,607	309,130	2,249	28,000	11,611
Less: Unamortized bond discounts	(40)	--	(127)	--	--	--
Net debt service requirements	$ 7,768	2,607	309,003	2,249	28,000	11,611

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

(2) These are variable rate notes with an assumed rate of 3.65%.

d -- Debt Service Requirements

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Revenue Bonds		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 164,799	159,507	750	64	1,805	179
2009	154,127	184,526	780	41	490	108
2010	136,607	195,988	915	15	508	90
2011	142,719	183,256	--	--	527	71
2012	152,188	172,960	--	--	163	56
2013-2017	915,524	568,826	--	--	207	245
2018-2022	591,549	401,040	--	--	266	187
2023-2027	599,482	173,965	--	--	341	111
2028-2032	328,796	55,988	--	--	265	22
2033-2037	96,297	10,870	--	--	--	--
	3,282,088	2,106,926	2,445	120	4,572	1,069
Less: Unamortized bond discounts	(16,825)	--	(11)	--	--	--
Unamortized gain(loss) on bond refundings	(172,424)	--	(26)	--	--	--
Add: Unamortized bond premiums	98,341	--	15	--	--	--
Net debt service requirements	3,191,180	2,106,926	2,423	120	4,572	1,069

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Total
2008	486,757	167,606	654,363
2009	165,432	189,887	355,319
2010	148,180	200,914	349,094
2011	153,025	187,742	340,767
2012	161,373	177,008	338,381
2013-2017	946,808	583,913	1,530,721
2018-2022	637,453	405,137	1,042,590
2023-2027	603,687	174,346	778,033
2028-2032	329,061	56,010	385,071
2033-2037	96,297	10,870	107,167
	3,728,073	2,153,433	5,881,506
Less: Unamortized bond discounts	(17,069)	--	(17,069)
Unamortized gain(loss) on bond refundings	(175,274)	--	(175,274)
Add: Unamortized bond premiums	100,376	--	100,376
Net debt service requirements	$ 3,636,106	2,153,433	5,789,539

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997, the City issued several series of bonds. The aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. In 2007, $20.4 million of multiple-family housing revenue bonds was issued. The City has $103.2 million in bonds of various series outstanding as of September 30, 2007 that had an original issue value of $104.2 million.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2007, $360.7 million in revenue and revenue refunding bonds was outstanding that had an original issue value of $375.3 million.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2007, are as follows (in thousands):

		Amount	
Receivable Fund	**Payable Fund**	**Current**	**Long-Term**
Governmental funds:			
Nonmajor governmental funds	General Fund	$ 13	--
	Nonmajor governmental funds	37,931	--
	Water and Wastewater	--	4,506
	Nonmajor enterprise funds	--	3,043
	Internal service funds	--	172
General Fund	Nonmajor governmental funds	227	--
	Proprietary	10	--
Internal Service funds:			
Information Systems	Internal service funds	230	--
Support Services	Nonmajor governmental funds	11	--
Wireless Services	Internal service funds	707	--
Business-type funds:			
Electric	Nonmajor enterprise funds	225	2,453
	Nonmajor governmental funds	--	7
Water and Wastewater (restricted)	Internal service funds	27	81
Airport (restricted)	General Fund	617	--
	Nonmajor governmental funds	--	140
Nonmajor enterprise funds	Nonmajor governmental funds	--	201
	Nonmajor enterprise funds	905	--
		$ 40,903	10,603

Interfund receivables and payables reflect loans between funds. Of the above current amount, $12.0 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $25.0 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund transfers during fiscal year 2007 were as follows (in thousands):

	Transfers In			
Transfers Out	General Fund	Nonmajor Governmental	Nonmajor Proprietary	Total
General Fund	$ --	9,781	7,126	16,907
Nonmajor governmental funds	770	41,296	37,275	79,341
Electric	84,500	--	--	84,500
Water and Wastewater	21,971	3,520	--	25,491
Nonmajor enterprise funds	--	2,820	--	2,820
Internal service funds	--	7,337	1,057	8,394
Total transfers out	$ 107,241	64,754	45,458	217,453

Interfund transfers are authorized through City Council approval. Significant transfers include the electric and water and wastewater transfers to the General Fund, which are comparable to a return on investment to owners.

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2007. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – COMMITMENTS AND CONTINGENCIES
a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with city funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was $67.1 million as of September 30, 2007. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

The original cost of the Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies. Each participant issued its own debt to finance its portion of construction costs. The City's portion was financed through utility revenue bonds. In addition, each participant has the obligation to finance its portion of any operating and capital costs, as well as its deficits.

A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2007, Austin Energy's investment in the STP was approximately $508 million, net of accumulated depreciation.

14 – COMMITMENTS AND CONTINGENCIES, continued
b -- South Texas Project, continued

Effective November 17, 1997, the participation agreement among the owners of STP was amended and restated, and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its STP funding. The City's portion is financed through operations, revenue bonds, or commercial paper, which are repaid by the Electric Fund (see Note 10). In addition, each participant has the obligation to finance any deficits that may occur.

Each participant appoints one member to the board of directors of STPNOC, as well as one other member to the management committee. A member of the management committee may serve on the board of directors in the absence of a board member. The City's portion of STP is classified as plant in service, construction in progress, and nuclear fuel inventory. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit information to the NRC indicating the minimum funding required for plant decommissioning. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2007, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2007	
Estimated cost to decommission STP	$ 237,126,400	
Decommissioning trust assets	130,478,554	(Includes other restricted assets of $31.3 million)

Austin Energy and other STP participants have provided the required information to the NRC and have collected decommissioning funds through rates since 1989. Austin Energy established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2007, Austin Energy collected $4,957,967 for decommissioning requirements.

d -- Energy Risk Management Program

In an effort to mitigate the financial and market risk associated with the purchase of natural gas and energy price volatility, Austin Energy has established a Risk Management Program. This program was authorized by the Austin City Council and is led by the Risk Oversight Committee. Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. Austin Energy typically settles these contracts in cash.

Austin Energy has entered into brokerage agreements with the following organizations to execute the exchange-traded instruments for Austin Energy's risk management activities:

Brokerage	Credit Rating
Citigroup Global Market Holding Inc.	AA-
Man Group	A-

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2007, Austin Energy's options, and swaps, valued at mark-to-market, net to an unrealized gain of $8,626,847. This reflects the present value of the difference between the cost and the fair market value of these contracts on September 30, 2007. Initial margins are flat fees per contract and are paid in cash or equity. Fair market values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by New York Mercantile Exchange or calculated by using prices on the New York Mercantile Exchange. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the financial statements at September 30, 2007.

14 – COMMITMENTS AND CONTINGENCIES, continued
d -- Energy Risk Management Program, continued

Options	
Contracts effective date	September 2005 through September 2007
Contracts maturity date	Through June 2012
Fair value	$(24,442,956)
Unrealized Gain/ (Loss)	(21,812,076)

The options and future contracts traded on New York Mercantile Exchange expose Austin Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or the exchange, the operations of Austin Energy will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit rating and the strict and deep credit requirements upheld by the New York Mercantile Exchange of which these brokerage houses are members. Termination risk for exchange traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission.

Swaps	
Contracts effective date	June 2005 through September 2007
Contracts maturity date	Through June 2012
Fair market value	$418,672,544
Unrealized Gain/ (Loss)	30,438,923

SO2	
Contracts effective date	August 2007 through September 2007
Contracts maturity date	Through October 2007
Fair market value	$(137,745)
Unrealized Gain/ (Loss)	(137,745)

The over-the-counter agreements expose Austin Energy to credit, termination, and non-performance risk. However, Austin Energy does not expect the counterparties to fail to meet their obligations given their high credit rating, minimum of A- by S&P. Austin Energy's exposure to termination and non-performance risk is minimal due to the high credit rating of the counterparties, and the contractual provisions under the International Swaps and Derivatives Association (ISDA) agreement applied to these contracts.

e -- Derivative Instruments

Swap for the Water & Wastewater System

Objective of the swap. In order to lower its borrowing costs, the City entered into a swap in connection with its Series 2004 Water and Wastewater System Variable Rate Revenue Refunding Bonds (the "Series 2004 Bonds") on July 2, 2004. The variable rate bonds were issued to advance-refund various outstanding Combined Utility System Revenue Refunding Bonds. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City.

Terms, fair values, and credit risk. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued on August 27, 2004, with a principal amount of $132,475,000. The swap was structured to match the principal amortization structure and dates of the Series 2004 Bonds.

14 – COMMITMENTS AND CONTINGENCIES, continued
e -- Derivative Instruments, continued

The counterparty to the swap is JPMorgan Chase Bank. A summary of the terms and fair value of the swap, as of September 30, 2007, is as follows:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2004	May 15, 2024	JP Morgan	Aa2/AA/AA-	68% of 1-month LIBOR	3.657%	$ (1,378,108)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against *potential* increases in long-term interest rates.

Fair value. The swap had a negative fair value as of September 30, 2007, of $1,378,108. This fair value takes into consideration the prevailing interest rate, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London InterBank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2007, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City's credit risk exposure is the amount of the positive fair value. Future interest rate increases or decreases determine the fair value and the extent of credit risk the City will incur. The current credit ratings of the JPMorgan Chase Bank are Aa2 (Moody's Investor Service Inc.), AA (Standard and Poor's) and AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2 (Moody's Investor Service, Inc.) and A (Standard and Poor's).

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. Basis risk exists since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. Exposure to basis risk may occur should the floating rate be less than the actual variable rate the City pays on the bonds. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, which is a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 68% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap were terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. The City would be liable to the counterparty for a payment equal to the swap's fair value if it were negative at the time of the termination. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased insurance to mitigate the possibility of termination risk.

14 – COMMITMENTS AND CONTINGENCIES, continued
e -- Derivative Instruments, continued

Swap payments and associated debt. As of September 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Water and Wastewater Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 1,200	4,566	(318)	4,248
2009	--	4,534	(315)	4,219
2010	--	4,534	(315)	4,219
2011	830	4,523	(314)	4,209
2012	6,905	4,364	(303)	4,061
2013-2017	69,990	15,369	(1,068)	14,301
2018-2022	22,620	6,105	(424)	5,681
2023-2027	15,030	691	(48)	643
Total	$ 116,575	44,686	(3,105)	41,581

Swap for the Airport System

Objective of the swap. In order to lower its borrowing costs the City entered into an interest rate swap in connection with its Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005 (the "Series 2005 Bonds") on July 2, 2004. The variable rate bonds were issued to forward refund various outstanding bonds of the airport. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City.

Terms, fair values, and credit risk. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued on August 17, 2005, with a principal amount of $306,225,000. The swap was structured to match the likely principal amortization structure and dates of the Series 2005 Bonds. The counterparty to the swap is Morgan Stanley Capital Services, Inc ("Morgan Stanley") with a guarantee from Morgan Stanley. A summary of the terms and fair value of the swap, as of September 30, 2007, is as follows:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	Aa3/AA-/AA-	71% of 1-month LIBOR	4.051%	$ (7,904,889)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against *potential* increases in long-term interest rates. Other than the aforementioned swap agreement, there are no other monetary fees for the swap transaction.

Fair value. The swap had a negative fair value as of September 30, 2007, of $7,904,889. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. The method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates.

14 – COMMITMENTS AND CONTINGENCIES, continued
e -- Derivative Instruments, continued

The payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2007, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair values of the swap become positive, the City's exposure is the amount of the swap's positive fair value. This amount may become positive if interest rates increase in the future. The current credit ratings of Morgan Stanley are Aa3 (Moody's Investor Services, Inc.), AA- (Standard & Poor's), and AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2 (Moody's Investor Services, Inc.) and A (Standard & Poor's).

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. Basis risk exists since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City may be exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap were terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. The City would be liable to the counterparty for a payment equal to the swap's fair value, if it were negative at the time of the termination. The additional termination events in the agreement are limited to non-issuance of the Series 2005 Bonds and credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased insurance to mitigate the possibility of termination risk.

Swap payments and associated debt. As of September 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Airport Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 10,000	12,378	(898)	11,480
2009	10,475	11,925	(865)	11,060
2010	10,975	11,450	(831)	10,619
2011	11,500	10,953	(795)	10,158
2012	12,050	10,431	(757)	9,674
2013-2017	57,225	44,408	(3,223)	41,185
2018-2022	86,050	30,317	(2,200)	28,117
2023-2027	93,025	7,157	(520)	6,637
Total	$ 291,300	139,019	(10,089)	128,930

14 – COMMITMENTS AND CONTINGENCIES, continued
e -- Derivative Instruments, continued

Swaps for the Hotel Occupancy Tax

Objective of the swaps. In order to lower its borrowing costs, the City entered into interest rate swaps in connection with its Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005 (the “Series 2005 VRRB”) on July 19, 2005. The variable rate bonds were issued to refund various outstanding bonds associated with the Hotel Occupancy Tax. The swaps were used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City. At the same time, the City incurs no basis risk over the escrow period of the refunded bonds.

Terms, fair values, and credit risk. The City’s swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued on August 17, 2005, with a principal amount of $119,290,000. The swaps were structured to match the likely principal amortization structure and dates of the Series 2005 VRRB.

The counterparty to the swap that fixes the bonds at 3.4007% was Lehman Brothers Derivative Products, a Lehman Brothers subsidiary. The counterparty to the swap portion that eliminates basis risk for the escrow period is Lehman Brothers Special Financing Inc. with a guarantee from Lehman Brothers. The table below contains a summary of the terms and fair value of the swaps as of September 30, 2007:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Hotel Occupancy Tax Subordinate Lein Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2029	Lehman Brothers Derivative Products	Aaa/AAAt/AAA	BMA + 0.0525% to 11/15/09; 67% of 1 Mo USD-LIBOR thereafter	3.401%	$ 1,325,757
Hotel Occupancy Tax Subordinate Lein Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2009	Lehman Brothers Special Financing	A1/A+/AA-	VRRB Rate + 0.0525%	BMA + 0.0525%	$ --

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transactions allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against potential increases in long-term interest rates, and eliminating basis risk during the escrow period of the refunded bonds.

Fair value. The swaps had a fair value as of September 30, 2007, of $1,325,757. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market’s best estimate of future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2007, the City was exposed to credit risk on its outstanding swaps since the swaps had a positive fair value of $1,325,757. The City’s exposure is the amount of positive fair value. The current credit ratings of Lehman Brothers are A1 (Moody’s Investor Services, Inc.), A+ (Standard & Poor’s), and A+ (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if it is terminated.

14 – COMMITMENTS AND CONTINGENCIES, continued
e -- Derivative Instruments, continued

The swap agreements contain collateral agreements with the counterparties. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, CIFG, maintains a credit rating above A3 (Moody's Investor Services, Inc.) and A- (Standard & Poor's).

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears no basis risk until November 15, 2009. Afterward, the swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City may be exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. Tax risk exists only after November 15, 2009. The City is receiving 67% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps were terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. The City would be liable to the counterparty for a payment equal to the swaps' fair value if it were negative at the time of the termination. The additional termination events in the agreement are limited to non-issuance of the Series 2005 VRRB and credit related events only. The ratings triggers are substantially below the current credit rating of the City.

Swap payments and associated debt. As of September 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Convention Center Variable-Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total
	Principal	Interest		
2008	$ --	4,593	(536)	4,057
2009	--	4,593	(536)	4,057
2010	3,045	4,495	(525)	3,970
2011	4,145	4,342	(506)	3,836
2012	4,290	4,178	(487)	3,691
2013-2017	23,690	18,228	(2,128)	16,100
2018-2022	21,970	13,219	(3,487)	9,732
2023-2027	39,145	7,288	1,093	8,381
2028-2032	23,005	1,054	(123)	931
Total	$ 119,290	61,990	(7,235)	54,755

f -- Certificates of Participation

The City has entered into a capital lease arrangement through the issuance of Certificates of Participation as follows:

$ 14,000,000 Water and Wastewater Utility Office Project, Series 1987

The certificates represent proportionate interests in lease payments to be made by the City to a third-party lessor. The City has title to the office projects, pursuant to general warranty deeds; however, the trustee maintains a vendor's lien and superior title to the properties until all sums due are paid in full.

The City's obligations under the lease agreements are subject to and dependent upon annual appropriations by the City Council and do not obligate the City to levy or pledge any form of taxation. Thus, the certificates are treated as capital lease obligations rather than as long-term bonds and are recorded as a liability in the Water and Wastewater Fund.

The following table presents information regarding these certificates:

Description	Water and Wastewater Fund Office Project (1)
Date issued	August 1987
Amount issued	$ 14,000,000
Interest rates	5.25% - 8.00%
Interest payable on	May 15 and November 15
Maturity dates	November 15 1989 - 2007
Present value of lease payments	$ 1,377,475
Reserve Fund (2)	$ 1,250,000

(1) Subject to mandatory redemption upon the occurrence of certain events.
(2) Held by trustee, to be used to make final payments.

g -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and state grant programs, financed primarily by the U.S. Housing and Urban Development (HUD) Department, U.S. Health and Human Services (HHS) Department, and U.S. Department of Transportation (DOT). The City's programs are subject to program compliance audits by the granting agencies. Management believes that no material liability will arise from any such audits.

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate the excess amounts to the federal government. The estimated amounts payable at September 30, 2007, are as follows (in thousands):

	Business-type Activities		
Governmental Activities	Electric	Water and Wastewater	Total
$ 46	648	266	$ 914

i -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2007 Capital Budget includes new appropriations of $717.6 million for the City's enterprise funds and $160.6 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include improvements to and development of the transportation infrastructure, public recreation and culture, electric system, water and wastewater systems, airport, and urban growth management activities as shown below (in thousands). Remaining commitments represent current unspent budget and future costs required to complete projects.

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
General government	$ 89,063	43,420
Public safety	6,660	11,404
Transportation	182,491	142,671
Public health	1,342	13,050
Public recreation and culture	126,099	197,405
Urban growth management	83,457	57,705
Business-type activities:		
Electric	3,516,190	435,623
Water	619,694	734,063
Wastewater	1,111,666	553,788
Airport	115,090	110,101
Convention	4,555	4,862
Environmental and health services	35,996	61,451
Urban growth management	189,443	285,768
Total	$ 6,081,746	2,651,311

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. The amount of costs reported is based on landfill capacity as of the City's fiscal year-end. The $10.1 million reported as accrued landfill closure and postclosure costs at September 30, 2007, represents the cumulative amount reported to date based on the use of 98.9% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $112 thousand as the remaining estimated capacity is filled over the next year. The total estimated costs of $10.2 million include costs of closure in 2008 of $2.6 million and postclosure costs over the subsequent thirty years of $7.6 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

14 – COMMITMENTS AND CONTINGENCIES, continued
k -- Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

Fund name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO or an HMO for health coverage. Approximately 30% of city employees and 50% of retirees use the HMO option; approximately 70% of city employees and 50% of retirees use the PPO. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on historical costs.

The City purchases stop-loss insurance for the City's PPO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $1 million. In fiscal years 2007 and 2006, no claims exceeded the stop-loss limit of $500,000; during fiscal year 2005, two claims exceeded the stop-loss limit of $500,000; and during fiscal year 2004, no claim exceeded the stop-loss limit of $500,000. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage for the last three years. The City also purchases a broad range of insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. The amount to be paid out ultimately may vary from the amount accrued at September 30, 2007. Possible losses are estimated to range from $22.2 to $36.9 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2007	2006	2007	2006	2007	2006
Liability balances, beginning of year	$ 4,382	4,940	6,862	13,919	9,965	9,959
Claims and changes in estimates	4,024	2,786	882	(3,126)	4,899	3,113
Claim payments	(4,024)	(3,344)	(2,098)	(3,931)	(2,671)	(3,107)
Liability balances, end of year	$ 4,382	4,382	5,646	6,862	12,193	9,965

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $2.8 million discounted at 4.63% in 2007 and $3.5 million discounted at 4.55% in 2006.

14 – COMMITMENTS AND CONTINGENCIES, continued
l -- Environmental Remediation Contingencies

Austin Energy may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of approximately $21 million at September 30, 2007. This amount includes the cost of PCB inspection and estimated remaining costs for the remediation of the contaminated sites. Austin Energy anticipates payment of these costs in 2007 and future years.

The EPA issued an administrative order to Austin Water on April 29, 1999, which requires the utility to perform a series of activities designed to result in an improved wastewater collection system free from sanitary sewer overflows. These activities include Infiltration/Inflow studies, sanitary sewer evaluation studies, as well as subsequent design and construction of necessary improvements to the wastewater collection system to eliminate overflows by June 30, 2009. Construction costs are estimated to be $400 million, and Austin Water is on schedule to comply with the administrative order.

Austin Water is planning to close the Green Water Treatment Plant (GWTP) no later than September 2008. The estimated decommissioning cost to close the GWTP is $13 million. The financial statements include a decommissioning liability of approximately $6.3 million at September 30, 2007. Plant decommissioning is estimated to be completed February 2010.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $241,000 as of September 30, 2007.

m -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Corporation (Catellus) to develop approximately 709 acres at the former site of the City's municipal airport near downtown Austin. Both the City and Catellus have numerous obligations under the agreement. Catellus will develop and market the property. The City will issue debt to fund infrastructure such as streets, drainage facilities, public parks, and greenways, which will be supported by taxes generated from this development. Additional water and wastewater infrastructure will also be constructed to enhance utility services to this site. To date, a portion of the property has been sold, and construction has been completed on a new children's hospital, the first phase of a regional retail shopping center, several office buildings, a visitor center, and a number of single family homes. Streets, greenways, and other infrastructure in the northwest quadrant of the property have also been constructed, and work is progressing on a major feature of the development, a lake park. With the signing of a 99-year ground lease with the University of Texas in October 2006, the project will also become home to the Dell Pediatric Research Institute. Construction of the first building associated with this institute has begun.

In August 2005, the developer filed a site plan for the regional retail portion of the property. This action triggered a requirement that the City or the Mueller Local Government Corporation (MLGC), created by the City for this development, issue debt to be supported by the estimated sales tax revenue generated from the retail property. Debt was issued in the amount of $12 million by the MLGC in September 2006. Proceeds of the debt have been used to reimburse the developer for eligible infrastructure such as streets, drainage, and parks. Debt service payments will be funded through an economic development grant from the City of Austin, and supported by sales tax proceeds from the development.

n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2007, was $19.3 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements to finance personal computers and other equipment for both governmental and business-type activities. As mentioned in a preceding section of this note, certificates of participation have been issued by the Electric Fund and Water and Wastewater Fund for financing certain office buildings. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

14 – COMMITMENTS AND CONTINGENCIES, continued
n -- Other Commitments and Contingencies

The following summarizes assets recorded at September 30, 2007, under capital lease obligations (in thousands):

		Business-type Activities				
Assets	Governmental Activities	Electric	Water and Wastewater	Airport	Nonmajor	Total
Building and improvements	$ --	1,405	13,429	--	--	14,834
Equipment	1,022	6	27	2,372	31	2,436
Accumulated depreciation	(630)	(180)	(5,080)	(412)	(29)	(5,701)
Net assets	$ 392	1,231	8,376	1,960	2	11,569

15 – OTHER POST-EMPLOYMENT BENEFITS

In addition to the contributions made to the three pension systems, the City provides certain other post-employment benefits to its retirees. Other post-employment benefits include access to medical and dental insurance for the retiree and the retiree's family and $1,000 of life insurance on the retiree only.

All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical and dental plan(s) in which they participate. Eligible dependents of the retiree include a legally married spouse and unmarried children dependent on the retiree for support. The children covered include children under age 25 that are: natural children; stepchildren; legally adopted children; children for whom the retiree has obtained court-ordered guardianship/conservatorship; qualified children placed pending adoption; grandchildren if claimed as a dependent on the retiree's or retiree spouse's federal income tax return; and eligible disabled children beyond 25 years of age, if covered prior to age 25. A surviving spouse of a deceased retiree may continue medical coverage until the date the surviving spouse remarries. A surviving spouse of a deceased retiree may continue dental coverage for 36 months by paying the entire premium plus a 2 percent administrative fee. Other surviving dependents of a deceased retiree may continue medical and dental coverage for 36 months by paying the entire premium plus a 2 percent administrative fee.

The City is under no obligation, statutory or otherwise, to offer other post-employment benefits or to pay any portion of the cost of other post-employment benefits to any retirees or their dependents. Allocation of city funds to pay other post-employment benefits or to make other post-employment benefits available is determined on an annual basis by the City Council as part of the budget approval process.

The City pays a portion of the retiree's medical insurance premium and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection, and years of service. The percentage of the medical insurance premium paid by the City ranges as follows:

Years of Service	Retiree only	Dependent only
Less than 5 years	16% - 17%	11% - 12%
5 to 9 years	24% - 25%	17%
10 to 14 years	41% - 42%	28% - 29%
15 to 20 years	57% - 58%	39% - 41%
Greater than 20 years	81% - 83%	56% - 58%

The City pays 100% of the retiree's life insurance premium. Group dental coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental premium.

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as an expense and corresponding revenue in the Employee Benefits Fund. Medical, dental and life insurance claims and premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,800 retirees was $16.9 million in 2007 and $15.7 million in 2006 for 2,682 retirees.

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2006, the City's portion of this obligation, $11.7 million, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS
a -- General Obligation Bonds Issues

In October 2007, the City delivered $97,525,000 of Public Improvement Bonds, Series 2007. The proceeds from the issue will be used as follows: streets and signals ($62,000,000), parks and recreation ($8,675,000), affordable housing ($5,000,000), and public safety facilities ($21,850,000). These bonds will be amortized serially on September 1 of each year from 2008 to 2027. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2008. Total interest requirements for these bonds, at rates ranging from 4.64% to 4.80%, are $71,596,615.

In October 2007, the City delivered $3,820,000 of Certificates of Obligation, Series 2007. The proceeds from the issue will be used as follows: Circle C Metro Park ($2,500,000) and Compressed Natural Gas Facility ($1,320,000). These certificates of obligation will be amortized serially on September 1 of each year from 2008 to 2027. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2008. Total interest requirements for these bonds, at a rate of 4.88%, are $2,241,864.

In October 2007, the City delivered $9,755,000 of Public Property Finance Contractual Obligations, Series 2007. The proceeds from the issue will be used as follows: fire trucks ($4,035,000), public works transportation equipment ($1,500,000), water utility capital equipment ($2,173,000), and wastewater utility capital equipment ($2,047,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2008 to 2017. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2008. Total interest requirements for these obligations, at a rate of 3.66%, are $1,680,905.

b -- Water and Wastewater System Revenue Bond Refunding Issue

In December 2007, the City issued $135,000,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2007. Proceeds from the bond refunding were used to refund $136,900,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds were $263,568,086, with interest rates ranging from 4% to 5.25%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

c -- Public Improvement Refunding Bond Issue

In March 2008, the City issued $172,505,000 of Public Improvement Refunding Bonds, Series 2008. The net proceeds of $188,363,353 (after issue costs, discounts, and premiums) from the refunding were used to refund $180,895,000 of public improvement bonds, series 1998, 2000, 2001, and 2002 and certificates of obligation, series 1997, 1998, 1999, 2000, 2001, 2002, and 2004. The refunding resulted in future interest requirements to service the debt of $56,849,570 with interest rates ranging from 3.5% to 5%. An economic gain of $9,551,705 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $12,229,025. An accounting loss of $6,970,028 which will be deferred and amortized, was recognized on this refunding.

d -- Electric System Revenue Bond Refunding Issue

In March 2008, the City issued $50,000,000 of Electric System Revenue Refunding Bonds, Taxable Series 2008. Proceeds from the bond refunding were used to refund $48,800,000 of the City's outstanding commercial paper issued for the electric utility system. The debt service requirements on the refunding bonds were $98,308,413, with interest rates ranging from 3.08% to 6.26%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

General Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2007
(In thousands)

City of Austin, Texas
RSI-1

	2007					
	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 326,576	--	326,576	321,408	321,408	5,168
Franchise fees	32,275	--	32,275	30,454	30,454	1,821
Fines, forfeitures and penalties	16,094	--	16,094	18,001	18,001	(1,907)
Licenses, permits and inspections	25,635	(59)	25,576	19,114	19,114	6,462
Charges for services/goods	26,357	(34)	26,323	26,069	26,069	254
Interest and other	13,602	(1,189)	12,413	11,466	11,466	947
Total revenues	440,539	(1,282)	439,257	426,512	426,512	12,745
EXPENDITURES						
General government						
Municipal Court	10,607	(412)	10,195	10,366	10,366	171
Public safety						
Police	198,115	873	198,988	197,746	198,597	(391)
Fire	108,024	(167)	107,857	108,449	108,449	592
Emergency Medical Services	40,589	(994)	39,595	39,715	39,715	120
Public Safety & Emergency Mgmt	5,421	(72)	5,349	5,465	5,465	116
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	297	--	297	300	300	3
Public health:						
Health	32,545	(460)	32,085	32,347	32,347	262
Public recreation and culture						
Parks and Recreation	32,125	185	32,310	32,318	32,318	8
Austin Public Library	21,088	160	21,248	21,391	21,391	143
Urban growth management						
Neighborhood Planning and Zoning	4,319	(59)	4,260	4,899	4,899	639
Development Services and Watershed Protection	14,567	(29)	14,538	14,659	14,659	121
General city responsibilities (4)	68,170	(58,749)	9,421	9,788	9,828	407
Total expenditures	535,867	(59,724)	476,143	477,443	478,334	2,191
Excess (deficiency) of revenues over expenditures	(95,328)	58,442	(36,886)	(50,931)	(51,822)	14,936
OTHER FINANCING SOURCES (USES)						
Transfers in	107,241	850	108,091	108,091	108,091	--
Transfers out	(16,907)	(59,151)	(76,058)	(73,677)	(75,739)	(319)
Total other financing sources (uses)	90,334	(58,301)	32,033	34,414	32,352	(319)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(4,994)	141	(4,853)	(16,517)	(19,470)	14,617
Fund balance at beginning of year	111,804	(12,286)	99,518	95,198	95,198	4,320
Fund balance at end of year	$ 106,810	(12,145)	94,665	78,681	75,728	18,937

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.
(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
(3) Variance is actual-budget basis to final budget.
(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs, budgeted payroll accrual, and amounts budgeted as fund-level expenditures.

1 – BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement ($255,000), expenditures for workers' compensation ($3,027,009), liability reserve ($2,500,000), and public safety ($2,411,190).

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund are provided, as follows (in thousands):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ (4,994)
Adjustments - increases (decreases) due to:	
Accrued payroll expenditures	1,081
Net compensated absences accrual	(3)
Outstanding encumbrances established in current year	(5,683)
Payments against prior year encumbrances	3,962
Transfer to Airport Fund	(700)
Other	1,484
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ (4,853)

c -- Budget Amendments

The original budget of the General Fund was amended several times during fiscal year 2007 primarily for increased public safety and urban growth management costs. The original and final budget is presented in the accompanying financial statements.

RETIREMENT PLANS

Trend Information

Information pertaining to the latest actuarial valuation for each plan is as follows (in thousands):

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
2003	1,348,800	1,551,800	203,000	86.9%	312,800	64.9%
2004	1,356,800	1,678,200	321,400	80.8%	326,600	98.4%
2005	1,398,800	1,794,200	395,400	78.0%	348,600	113.4%
2006	1,497,800	1,974,000	476,200	75.9%	391,000	121.8%
Police Officers						
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
2003	320,354	413,965	93,611	77.4%	80,959	115.6%
2004	343,447	451,580	108,133	76.1%	86,674	124.8%
2005	371,505	494,641	123,136	75.1%	93,429	131.8%
2006	417,284	576,125	158,841	72.4%	100,090	158.7%
Fire Fighters (2)						
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%
2003	421,136	452,669	31,533	93.0%	55,939	56.4%
2005	493,567	580,054	86,487	85.1%	65,885	131.3%

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)
(2) The actuarial study for the Fire Fighters' plan is performed biannually.

Information on where to obtain financial statements and supplementary information for each plan can be found in Footnote 8.

APPENDIX C

CERTAIN DEFINITIONS

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APPENDIX C

CERTAIN DEFINITIONS

In addition to the words and terms defined in this Official Statement, the following words and terms as used in this Official Statement, including the Appendices thereto, have the following meanings:

"Alternate Credit Facility" means a letter of credit, insurance policy, surety bond, line of credit, or other instrument, as the case may be, issued in accordance with the terms of the Ordinance as a replacement or substitute for a then-existing Credit Facility, as applicable, then in effect.

"Alternate Liquidity Facility" means a letter of credit, line of credit, standby purchase agreement or other instrument, as the case may be, issued in accordance with the terms of the Ordinance as a replacement or substitute for a then-existing Liquidity Facility, as applicable, then in effect.

Alternate Rate" means, on any Rate Determination Date, the SIFMA Index or if the SIFMA Index is no longer published, the Kenny Index, or if neither the SIFMA Index nor the Kenny Index are published, an index or a rate selected or determined by the Paying Agent/Registrar and consented to by the City and the Credit Facility Provider.

"Available Amount" means the amount available under the Credit Facility or Liquidity Facility, as applicable, to pay the principal of and interest on the Bonds or the Purchase Price of the Bonds, as applicable.

"Book-Entry System" means the book entry system of registering ownership described in the Official Statement under the heading "BOOK-ENTRY-ONLY SYSTEM."

"Business Day" shall mean any day other than (a) a Saturday or Sunday, (b) a day on which banks located in the cities in which the designated office of any of the Tender Agent, the Remarketing Agent, the Paying Agent/Registrar, the Credit Provider or the Liquidity Provider is located are required or authorized by law or executive order to close, (c) a day on which the New York Stock Exchange is closed, or (d) a day on which the payment system of the Federal Reserve System is not operational.

"Closing Date" when used with respect to the Bonds of a subseries, means the date on which such Bonds are first issued, sold and delivered.

"Convention Center/Waller Creek Venue Project" means the capital improvement project described generally as consisting of the expansion of the City's Convention Center, including the construction of tunnel improvements along Waller Creek in the vicinity of and functionally related to the convention center and related infrastructure and being a venue project within the meaning of Chapter 334 of the Local Government Code approved at an election held in the City on May 2, 1998, and designated by Resolution No. 980205-61.

"Credit Agreement" has the meaning set forth in Chapter 1371, Texas Government Code, as the same may be amended from time to time.

"Credit Facility" shall mean a letter of credit, insurance policy, surety bond, line of credit or other instrument then in effect which secures or guarantees the payment of principal of and interest on the Bonds. The initial Credit Facility for the Bonds is the Initial Letter of Credit.

"Credit Facility Provider" shall mean any bank, insurance company, pension fund or other financial institution which provides a Credit Facility or Alternate Credit Facility for the Bonds. The initial Credit Facility Provider shall be the Bank.

"Debt Service Requirements" of any series of bonds for any particular Bond Year, means an amount equal to the sum of the principal of and interest and any redemption premium on such bonds then Outstanding which will become due and owing during such Bond Year; subject, however, to adjustment as provided in the Ordinance.

"Electronic Means" means telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

"Eligible Account" means an account that must be maintained either with (i) a federal or state-chartered depository institution or trust company that has a Standard & Poor's short-term debt rating of at least "A-2" (or, if no short-term debt rating, a long-term debt rating of "BBB+"); or (b) the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Part 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

"Expiration Date" means, with respect to a Credit Facility or Liquidity Facility with respect to the Bonds of a subseries, the stated expiration date of such Credit Facility or Liquidity Facility, or such stated expiration date as it may be extended from time to time as provided therein; provided, however, that the "Expiration Date" does not mean any date upon which a Credit Facility or Liquidity Facility is no longer effective by reason of its Termination Date, the date on which all Bonds of such subseries bear interest at a Fixed Rate or an auction rate or the expiration of such Credit Facility or Liquidity Facility by reason of the obtaining of an Alternate Credit Facility or Alternate Liquidity Facility.

"Favorable Opinion of Bond Counsel" means, with respect to any action the occurrence of which requires such an opinion, an unqualified opinion of counsel to the effect that such action is permitted under the Ordinance and that such action will not impair the exclusion of interest on such Bonds from gross income for purposes of federal income taxation (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

"Fiscal Year" means the City's fiscal year as from time to time designated by the City, which is currently October 1 to September 30.

“Fitch” means Fitch, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City after consultation with the Remarketing Agent.

“Fixed Rate” means an interest rate fixed to the Maturity Date of the Bonds of a subseries.

“Fixed Rate Mode” means the period during which Bonds of a subseries bear interest at a Fixed Rate.

“Government Obligations” mean (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

“Guaranty Agreement” means a guaranty or other agreement pursuant to which the City is obligated to pay premiums, fees, and reimbursement obligations owing to the issuer of a Reserve Fund Surety Bond.

“Holder” or “Owner” when used with respect to any Bond (or Parity Bond) means the person or entity in whose name such Bond (or Parity Bond) is registered in the Security Register. Any reference to a particular percentage or proportion of the Holders or Owners shall mean the Holders or Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds (or Parity Bonds) then Outstanding under the Ordinance.

“Interest Payment Date” means the following dates upon which interest is payable on Bonds of a subseries:

(a) the Maturity Date or any Mode Change Date; and

(b) the fifteenth day of each calendar month (provided that if such day is not a Business Day, interest shall be paid on the next Business Day), provided, however, the initial Interest Payment Date for the Bonds shall be September 15, 2008.

“Interest Period” means the period of time that any interest rate remains in effect, which period is the period from and including the Closing Date (if initially issued in the Weekly Mode), the Mode Change Date that they began to bear interest at the Weekly Rate to and including the following Wednesday and thereafter commencing on each Thursday to and including the earlier of the Wednesday of the following week or the day preceding any Mandatory Purchase Date or the Maturity Date.

"Interest Rate Management Agreement" means the Series 2008 Interest Rate Management Agreement and any other Credit Agreement between the City and another party entered into in connection with or related to the City's Variable Rate Obligations, which Credit Agreement is in the form of an interest rate exchange agreement, pursuant to which the City pays a fixed percentage rate of a notional amount and the other party pays a variable percentage rate of the same notional amount, of which the notional amount is equal to the principal amount of such Variable Rate Obligations of the City, and of which the notional amount is reduced as the principal of such Variable Rate Obligation is paid.

"Junior Obligations" means the payment obligations of the City under an Interest Rate Management Agreement, including but not limited to, the Series 2008 Interest Rate Management Agreement, that are termination payments, settlement payments or other payments that are not included in clause (iii) of the definition of Parity Obligations.

"Junior Subordinate Lien Bond" means an Additional Bond issued by the City pursuant to the Ordinance secured wholly or partly by liens on the Pledged Revenues that are junior and subordinate to the lien on Pledged Revenues securing payment of the Parity Bonds.

"Kenny Index" means the rate determined on the basis of the Kenny 30-Day High Grade Index announced on Tuesday or the next preceding Business Day and as computed by Kenny Information Systems, Inc.

"Liquidity Facility" means any letter of credit, line of credit, standby purchase agreement or other instrument then in effect which provides for the payment of the purchase price of Bonds upon the tender thereof in the event remarketing proceeds are insufficient therefor. The initial Liquidity Facility for the Bonds is the Initial Letter of Credit issued by the Bank.

"Liquidity Facility Provider" shall mean any bank, insurance company, pension fund or other financial institution which provides a Liquidity Facility or Alternate Liquidity Facility for the Bonds, including the Bank.

"Liquidity Facility Purchase Account" means the account within the Purchase Fund created by the Tender Agent.

"Liquidity Provider Bonds" means any Bonds purchased by the Liquidity Facility Provider with funds drawn on or advanced under the Liquidity Facility.

"Mandatory Purchase Date" means (i) any Mode Change Date, (ii) the Interest Non-Reinstatement Tender Date, (iii) the Substitution Date, (iv) the Expiration Tender Date and (v) the Termination Tender Date.

"Maturity Date" means, with respect to any Bond of a subseries, the final date specified therefor in the Ordinance.

"Maximum Rate" means, (i) the Tax-Exempt Maximum Rate or such lesser rate as may be specified in the Liquidity Facility for the Bonds of such subseries and (ii) with respect to Bonds of a subseries that are Liquidity Provider Bonds, the Liquidity Provider Bond Maximum Rate; provided, however, that in no event may the Maximum Rate on any such Bonds exceed the maximum rate permitted by applicable law.

"Mode" means the commercial paper mode, the daily mode, the Weekly Mode, the term rate mode, the auction rate mode or the Fixed Rate Mode.

"Mode Change Date" means, with respect to Bonds of a subseries, the date one Mode terminates and another Mode begins.

"Moody's" shall mean Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City after consultation with the Remarketing Agent.

"Notice Parties," if not the Person providing the notice, means the City, the Paying Agent/Registrar, the Remarketing Agent the Tender Agent, the Credit Facility Provider (if any), and the Liquidity Facility Provider.

"Outstanding" when used with reference to any Prior Lien Bonds, Parity Bonds or Junior Subordinate Lien Bonds means, as of a particular date, all Prior Lien Bonds, Parity Bonds or Junior Subordinate Lien Bonds, any or all, theretofore and thereupon delivered except: (a) any such Prior Lien Bond, Parity Bond or Junior Subordinate Lien Bond paid, discharged or canceled by or on behalf of the City at or before said date; (b) any such Prior Lien Bond, Parity Bond and Junior Subordinate Lien Bond defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such Prior Lien Bond, Parity Bond or Junior Subordinate Lien Bonds in lieu of or in substitution for which another obligation shall have been delivered pursuant to the ordinances authorizing the issuance of such Prior Lien Bonds, Parity Bonds or Junior Subordinate Lien Bonds.

"Parity Bonds" mean the Bonds and Additional Bonds secured by a lien on the 4.5% HOT on a parity with the Bonds.

"Parity Obligations" mean at any time all (i) Parity Bonds, (ii) all Reimbursement Obligations, (iii) obligations of the City to make scheduled payments under an Interest Rate Management Agreement, and (iv) any future obligation of the City under Credit Agreements or other agreements to the extent such obligations are secured by a lien on the 4.5% HOT on an equal and ratable basis with the lien securing the Parity Bonds.

"Pledged Revenues" mean collectively, (i) the 4.5% HOT, (ii) the 2% HOT deposited to the credit of the Venue Project Fund (iii) interest and other income realized from the investment of amounts on deposit in the funds and accounts to be maintained pursuant to the Ordinance to the extent such interest and other income are required to be transferred or credited to the Tax

Fund, and (iv) any additional revenue, receipts or income hereafter pledged to the Bonds in accordance with the Ordinance.

"Prior Lien Bonds" mean (a) with respect to the Pledged Hotel Occupancy Tax Revenues, the outstanding "City of Austin, Texas, Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004," dated February 1, 2004, originally issued in the aggregate principal amount of $52,715,000, and (b) with respect to the Special Hotel Occupancy Tax deposited to the credit of the Venue Project Fund, the Special Venue Project Bonds.

"Purchase Date" means with respect to any Bond of a subseries any Business Day upon which such Bond is tendered or deemed tendered for purchase pursuant to the Ordinance.

"Purchase Fund" means a separate fund created and maintained as an Eligible Account with the Tender Agent for the Bonds of each subseries.

"Purchase Price" means an amount equal to the principal amount of any Bonds purchased on any Purchase Date, plus accrued interest to the Purchase Date (unless the Purchase Date is an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course).

"Rate Determination Date" means any date on which the interest rate on any Bonds of a subseries is required to be determined, being for any Interest Period commencing on a Mode Change Date, the Business Day immediately preceding the Mode Change Date, and for any other Interest Period, each Wednesday or, if such Wednesday is not a Business Day, the Business Day next preceding such Wednesday.

"Rating Agency" means any nationally recognized rating agency that maintains a rating on the Bonds at the request of the City. Initially, the Rating Agencies are Moody's and Standard & Poor's.

"Rating Confirmation Notice" means, with respect to an action that affects the Bonds, a writing from each Rating Agency confirming that the rating(s) issued by such Rating Agency on such series of Bonds will not be lowered or withdrawn (other than a withdrawal of a short-term rating upon a change to a long-term mode) as a result of the action proposed to be taken.

"Redemption Date" means the date fixed for redemption of Bonds of a subseries subject to redemption in any notice of redemption given in accordance with the terms hereof.

"Redemption Price" means an amount equal to the principal of and premium, if any, and accrued interest, if any, on the Bonds to be paid on the Redemption Date.

"Reimbursement Obligation" mean any obligation entered into by the City in connection with any Parity Bond pursuant to which the City obligates itself to reimburse a bank, insurer, surety or other entity for amounts paid or advanced by such party pursuant to a letter of credit, line of credit, standby bond purchase agreement, credit facility, liquidity facility, insurance policy, surety bond or other similar credit agreement, guaranty or liquidity agreement to secure any portion of principal of, interest on or purchase price of any Parity Bond or reserves in connection therewith or otherwise relating to any Parity Bond. The City's obligations under a

Guaranty Agreement, its obligations under a Liquidity Facility, and its obligations to reimburse a Credit Facility Provider for amounts paid under a Credit Facility constitute Reimbursement Obligations.

"Remarketing Proceeds Account" means the account within the Purchase Fund created by the Tender Agent.

"Reserve Fund Requirement" means the least of (i) 10% of the Outstanding principal amount of the Parity Bonds or (ii) the maximum annual Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Parity Bonds at any time Outstanding, or (iii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of Section 148 of the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

"Reserve Fund Surety Bond" means any surety bond, insurance policy, letter of credit or other guaranty issued to the City for the benefit of the Holders of the Parity Bonds to satisfy any part of the Reserve Fund Requirement as provided in the Ordinance.

"Security Register" mean the books of registration maintained by the Paying Agent/Registrar for recording the names and addresses of and the principal amounts registered to each Holder.

"SIFMA Index" means the Securities Industry and Financial Markets Association Municipal Swap Index reported by the Securities Industry and Financial Markets Association. SIFMA Index was formerly called the BMA Index.

"Special Venue Project Bonds" mean City of Austin, Texas, Convention Center/Waller Creek Venue Project Bonds, Series 1999A, dated June 15, 1999, and originally issued in the aggregate principal amount of $25,000,000.

"Standard & Poor's" shall mean Standard & Poor's Ratings Services, Inc., a division of The McGraw-Hill Companies, Inc., duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City after consultation with the Remarketing Agent.

"Substitution Date" means:

(a) the second Business Day preceding the date that is specified in a written notice given to the Paying Agent/Registrar and the Tender Agent in accordance with the Liquidity Facility or the Credit Facility as the date on which the assignment of the obligation of the Liquidity Facility Provider or the Credit Facility Provider under such Liquidity Facility or Credit Facility is effective; provided, however, that any date specified in such written notice as the effective date of such assignment is treated as the effective date of such assignment even if the assignment fails to occur on such date; and

(b) the date that is specified in a written notice given by the City to the Paying Agent/Registrar and the Tender Agent as the date on which an Alternate Credit Facility or an Alternate Liquidity Facility is to be substituted for a then-existing Credit Facility or Liquidity Facility in effect pursuant to the Ordinance; provided, however, that any date so specified in the written notice is treated as a Substitution Date only if a written notice thereof is given to the Paying Agent/Registrar and the Tender Agent at least 16 days preceding such date; provided further, however, that any date so specified in the written notice is treated as a Substitution Date even if the substitution of the Alternate Credit Facility or the Alternate Liquidity Facility fails to occur on such date.

"Tax-Exempt Maximum Rate" means the greater of 12% per annum or the maximum allowed by Chapter 1204, Texas Government Code, as amended.

"Termination Date" means, with respect to a Credit Facility or a Liquidity Facility, (i) the date on which such Credit Facility or Liquidity Facility terminates pursuant to its terms or otherwise be terminated prior to its Expiration Date, including as a result of any default or event of default under the Credit Facility or Liquidity Facility, or (ii) the date on which the obligation of the Credit Facility Provider or the Liquidity Facility Provider to provide a loan terminates; provided, however, that "Termination Date" does not mean any date upon which a Credit Facility or Liquidity Facility is no longer effective by reason of its Expiration Date.

"Transfer Date" mean each February 14, May 14, August 14, and November 14, beginning August 14, 2008.

"Transfer Period" mean the period of time beginning on any Transfer Date and ending on the day immediately preceding the next succeeding Transfer Date.

"Variable Rate Obligations" mean any obligation pursuant to which the City is to pay interest at an interest rate that is not fixed for the life of the obligation and any obligation, such as an interest rate exchange agreement or other Credit Agreement, pursuant to which the City is to make payments the amounts of which are not known at the time the obligation is issued or incurred.

"Venue Project Fund" mean the Fund so designated created and established pursuant to Ordinance No. 980709-G, adopted by the City Council on July 9, 1998, providing for the levy, assessment and collection of the Special Hotel Occupancy Tax.

"Weekly Mode" means a period of time during which Bonds of a subseries bear interest at a Weekly Rate.

"Weekly Rate" means the rate of interest per annum determined by each Remarketing Agent on and as of the applicable Rate Determination Date or, in the case of an optional tender of Bonds, the optional tender date, as the minimum rate of interest that, in the opinion of the Remarketing Agent, would, under then existing market conditions, result in the sale of the Bonds of the subseries in the Weekly Mode on the Rate Determination Date or the optional tender date, as applicable, at a price equal to the principal amount thereof, plus accrued interest, if any.

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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IN REGARD to the authorization and issuance of the "City of Austin, Texas, Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008" (the "Bonds"), dated August 14, 2008, in the principal amount of $125,280,000, we have examined the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form and mature on November 15, 2029, unless redeemed prior to maturity in accordance with the applicable optional or mandatory redemption provisions. The Bonds bear interest on the unpaid principal amount from the date of issuance at the rates per annum applicable thereto from time to time as provided in the ordinance authorizing the issuance of the Bonds and a pricing certificate executed pursuant thereto (collectively, the "Ordinance"), and such interest is payable on the dates and in the manner provided in the Ordinance.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes, and none other. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City or the history or prospects of the collection of hotel occupancy taxes, and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

Our examination into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the Constitution and laws of the State of Texas; the Charter of the City; a transcript of certified proceedings of the City relating to the authorization, issuance, sale, and delivery of the Bonds, including the Ordinance; certificates and opinions of officials of the City; other pertinent instruments authorizing and relating to the issuance of the Bonds; and an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been authorized, issued and delivered in accordance with law; that the Bonds are valid, legally binding and enforceable special obligations of the City in accordance with their terms payable solely from and secured by a subordinate lien on and pledge of the Pledged Revenues in the manner provided in the Ordinance except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally.

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Subject to the restrictions stated in the Ordinance, the City has reserved the right, to issue and incur additional revenue obligations payable from and secured by a lien on and pledge of the Pledged Revenues on a parity with, or subordinate to, the Bonds.

2. Assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, interest on the Bonds for federal income tax purposes (i) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof, of the owners thereof pursuant to section 103 of such Code, existing regulations, published rulings, and court decisions thereunder, and (ii) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on all tax-exempt obligations, such as the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

We express no opinion as to the affect on the excludability from gross income for federal income tax purposes of any action taken under the Ordinance which requires that the City shall have received an opinion of counsel to the effect that such action will not adversely affect the excludability of interest on the Bonds from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes. The Ordinance provides that prior to taking certain actions, including converting the interest rate on the Bonds, the City must have received such an opinion, which is dependent on the occurrence of certain events in the future.

We express no opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, owners of interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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APPENDIX E

SCHEDULE OF REFUNDED BONDS

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		Maturity	Maturity Amount	Call Date	Redemption Price
Hotel Occupancy Tax Subordinate Lien, Series 2005	Term Bond	11/15/2029	$ 119,290,000	9/15/2008	100%

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APPENDIX F

DEXIA CREDIT LOCALE

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Dexia Credit Local

Dexia Credit Local ("Dexia") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 20 billion euros as of December 31, 2007, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,500 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in La Défense, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia. Dexia is the leading local authority lender in Europe, funding its lending activities in 2007 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2007, total funding raised by Dexia and Dexia Municipal Agency was 18.2 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2007, Dexia had total consolidated assets of 345 billion euros, outstanding medium and long-term loans to customers of 285.1 billion euros and shareholders' equity of over 6.29 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 991 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2007, the exchange rate was 1.0000 euro equals 1.4721 United States dollars. Such exchange rate fluctuates from time to time.

Dexia is rated Aa1 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch. Moody's has assigned a stable outlook to Dexia. On July 9, 2008, S&P revised its outlook on Dexia from stable to negative. On July 17, 2008, Fitch revised its outlook on Dexia from stable to negative.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 8th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

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APPENDIX C

CERTAIN REVISIONS TO 2008 OFFICIAL STATEMENT

Certain summaries in the 2008 Official Statement shall be superseded by the descriptions provided below. The revisions described below should be read in conjunction with the 2008 Official Statement, which is attached to this Information Circular as APPENDIX B.

The summary in the 2008 Official Statement under the caption "SECURITY FOR THE BONDS – Funds and Flow of Funds – Flow of Funds regarding Pledged Hotel Occupancy Tax Revenues" is replaced in its entirety by the following:

Flow of Funds regarding Pledged Hotel Occupancy Tax Revenues. The City covenants and agrees that all revenues derived by the City from the 4.5% HOT (which revenues are defined in the Ordinance as the "Pledged Hotel Occupancy Tax Revenues") shall be deposited as received into the Tax Fund. Money from time to time credited to the Tax Fund shall be applied as follows in the following order of priority:

First, to transfer all amounts to the Debt Service Fund required by the ordinances authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

Second, to transfer all amounts to the Debt Service Reserve Fund required by the ordinances authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

Third, to transfer to the Bond Fund all amounts necessary to provide for the payment of Parity Obligations, to the extent that the revenues from the Special Hotel Occupancy Tax are insufficient to meet the Debt Service Fund requirements of the related ordinances.

Fourth, to transfer to the Reserve Fund the amounts required pursuant to the provisions of the Ordinance as described under the heading "SECURITY FOR THE BONDS – Reserve Fund," to the extent that the revenues from the Special Hotel Occupancy Tax are insufficient to meet the Reserve Fund requirements of the related ordinances.

Fifth, to transfer all amounts required to be deposited to the special funds and accounts created for the payment and security of the Junior Subordinate Lien Bonds.

Sixth, to the payment of all Junior Obligations secured under the Ordinance on a pari passu basis.

Seventh, for any lawful purpose under the Tax Act.

The summary in the 2008 Official Statement under the caption "SECURITY FOR THE BONDS – Funds and Flow of Funds – Flow of Funds regarding Special Hotel Occupancy Tax Revenues" is replaced in its entirety by the following:

Flow of Funds regarding Special Hotel Occupancy Tax Revenues. The City covenants and agrees that all receipts and revenues collected and received by the City from the Special Hotel Occupancy Tax shall be deposited to the credit of the Venue Project Fund and more particularly to the credit of the Tax Account. Following the issuance of the Bonds and while Parity Obligations and Junior Obligations remain Outstanding, money from time to time credited to the Tax Account shall be applied as follows in the following order of priority:

First, to transfer all amounts to the Debt Service Account required by the ordinances authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

Second, to transfer all amounts to the Debt Service Reserve Account required by the ordinances authorizing the issuance of the Prior Lien Bonds (in such relative order of priority as is required by the related ordinances).

Third, to transfer to the Bond Fund all amounts necessary to provide for the payment of the Parity Bonds and Parity Obligations related to the Parity Bonds.

Fourth, to transfer to the Reserve Fund the amounts required pursuant to the provisions of the Ordinance as described under the heading "SECURITY FOR THE BONDS – Reserve Fund."

Fifth, to transfer all amounts required to be deposited to the special funds and accounts created for the payment and security of the Junior Subordinate Lien Bonds.

Sixth, to the payment of all Junior Obligations secured under the Ordinance on a pari passu basis.

Seventh, to pay the costs of operating or maintaining the Convention Center/Waller Creek Venue Project.

The first paragraph under the caption "DESCRIPTION OF THE BONDS – Defeasance" in the 2008 Official Statement is replaced in its entirety with the following:

If the City pays or causes to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner described in the Ordinance, and other obligations due under any Credit Facility or Liquidity Facility are paid in full or otherwise provided for and any related Credit Facility or Liquidity Facility has been canceled, then the pledge of the Pledged Revenues under the Ordinance and all other obligations of the City to the Holders will thereupon cease, terminate, and become void and be discharged and satisfied.

The definitions of "Mandatory Purchase Date" and "Parity Obligations" contained in Appendix C to the 2008 Official Statement are replaced in their entirety with the following:

"Mandatory Purchase Date" means (i) any Mode Change Date, (ii) the Substitution Date, (iii) the Expiration Tender Date, and (iv) the Termination Tender Date.

"Parity Obligations" mean at any time all (i) Parity Bonds, (ii) all Reimbursement Obligations, (iii) obligations of the City to make scheduled payments under an Interest Rate Management Agreement, (iv) all other obligations of the City under any Credit Agreements owing to the Credit Facility Provider or the Liquidity Facility Provider by the City, and (v) any future obligation of the City under Credit Agreements or other agreements to the extent such obligations are secured by a lien on the 4.5% HOT on an equal and ratable basis with the lien securing the Parity Bonds.

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